

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

POLAND

West's aid bodies chart new waters

Page 2

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World News

France calls for World Park in Antarctica

French Prime Minister Michel Rocard called for Antarctica to be declared a world park to protect its fragile environment and ecologists said they wanted a total ban on mining in the frozen continent.

Mr Rocard told diplomats at the start of an 11-day meeting that the earth's coldest continent must be preserved for world science. Page 2

Bush praised
US President George Bush's handling of the failed coup attempt against General Manuel Noriega of Panama was generally backed by the American public, a public opinion poll revealed. Page 8

Lee to step down
Singapore Prime Minister Lee Kuan Yew said he will step down and hand over power to his deputy, Goh Chok Tong, by the end of next year.

China retaliates
China started refusing to accept repatriation of illegal immigrants from Hong Kong in what could be retaliation for the colony's refusal to return a Chinese summer being held by overseas Chinese dissidents. Page 4

Disaster averted
A Boeing 727 landed safely in Paris missing one wheel after losing part of its undercarriage on take-off from Algiers.

Rebels kill 100
Mozambican right-wing rebels said they had killed about 100 soldiers in an offensive aimed at forcing the Government to hold direct peace talks.

Mubarak warned
A leader of the radical Palestinian guerrilla group, the Popular Front for the Liberation of Palestine, warned Egyptian President Hosni Mubarak that he could suffer the same fate as his assassinated predecessor unless he abandoned his Middle East peace campaign.

UN warns West
UN Secretary-General Manfred Unger rebuked Western governments for easing off on defence and said a dramatic improvement in East-West relations could not mean "cut-price security".

Pope visits Jakarta
The Pope arrived for a six-day visit to Indonesia, which has the largest Moslem population in the world.

Anti-drugs push
The presidents of eight Latin American nations, the world's main cocaine-producing countries among them, meet this week in search of a common strategy against drugs.

Typhoon kills 50
At least 50 people were killed as raging flood waters from Typhoon Angela swept away homes in the Philippines.

Burmese hijacker
Two Burmese students who hijacked an airplane to Thailand to demand an end to political repression at home will stand trial in Bangkok and not be repatriated.

Journalists strike
Journalists on the Daily Telegraph in London launched an immediate 26-hour strike last night after management announced plans for 33 redundancies and new contracts covering seven-day working.

Business Summary

ICI to sell part of US drug interest for \$450m

IMPERIAL Chemical Industries is to sell its US non-prescription drug business to a joint venture between Merck and Johnson & Johnson, two big US pharmaceutical companies.

The deal, worth more than \$450m, will be effected partly by a cash payment, believed to be between \$350m and \$400m. Page 21

Eurotunnel, Anglo-French Channel tunnel group, defended its handling of the crisis brought on by rapidly rising construction costs, denying it was involved in a row with its contractors. Page 21

EC merger control: Britain is to propose a "two-tier" system of European Community merger control in an effort to avert stalemate over the European Commission's long-standing demand for power to veto large deals in advance. Page 20

AUTOMOBILE Association, UK motoring, travel and insurance group, is to announce a package of holiday packages with the loss of 500 jobs in response to the slump in package holiday bookings for next year. Page 9

HONG KONG Airport: Plans for Hong Kong's new two-runway international airport, to be located at Chek Lap Kok west of the island of Lantau, are likely to be approved by the colony's executive council today. Page 4

PECHINEY, world's third largest aluminium producer, threatened to scrap a planned \$74.5m (\$72m) plant unless the European Commission clears it from allegations of illicit state aid. Page 8

VALLOUREC, formerly loss-making French producer of steel tubes, produced a more than fourfold increase in first half profits, on turnover up 21 per cent to Fr4.35m (\$67m). Page 23

MERSHI (Iranian Government) has finally persuaded the Japanese group to withdraw from the ill-fated Bandar Khomeini petrochemical plant joint venture after it paid a "separation fee" of ¥120m (\$84m). Page 7

ALFA-Laval, Swedish dairy equipment and process engineering group, reported a 51 per cent rise in profits to SKr79m (£122m) for the first eight months of 1989. Page 24

AKER, big Norwegian industrial group, reported pre-tax profits, before financial items, in the first eight months of this year more than sevenfold to Nkr391m (\$52m) from Nkr51m. Page 24

BANCO NACIONAL, Ultramarino of Portugal has been asked by the Bank of France to take over management control of Paris-based Banque Franco-Portugaise because it was not being managed under normal conditions. Page 24

TELERATE, US company which provides on-line financial data to the financial markets, said it was negotiating with American Telephone & Telegraph to buy its 50 per cent of a joint venture to develop a foreign exchange trading service. Page 23

ROVER GROUP, British motor manufacturer, is developing a high-performance, luxury coupé aimed primarily at North American markets, which is being designed independently of Honda. Page 20

EC accounting: The UK's three main accounting bodies have suggested a Europe-wide mechanism for setting accounting standards in draft proposals that have stirred a row between big accountancy firms and professional bodies. Page 20

Sterling falls below DM3 despite interest rate rise

By Simon Holberton and Patrick Harverson in London

STERLING dropped sharply on financial markets yesterday only days after the British Government raised interest rates to prop up the currency. Despite the base rates rise to 15 per cent, sterling fell 5 1/2 pence through the psychologically important DM3 barrier to DM2.9750, its lowest level against the D-Mark for 21 months.

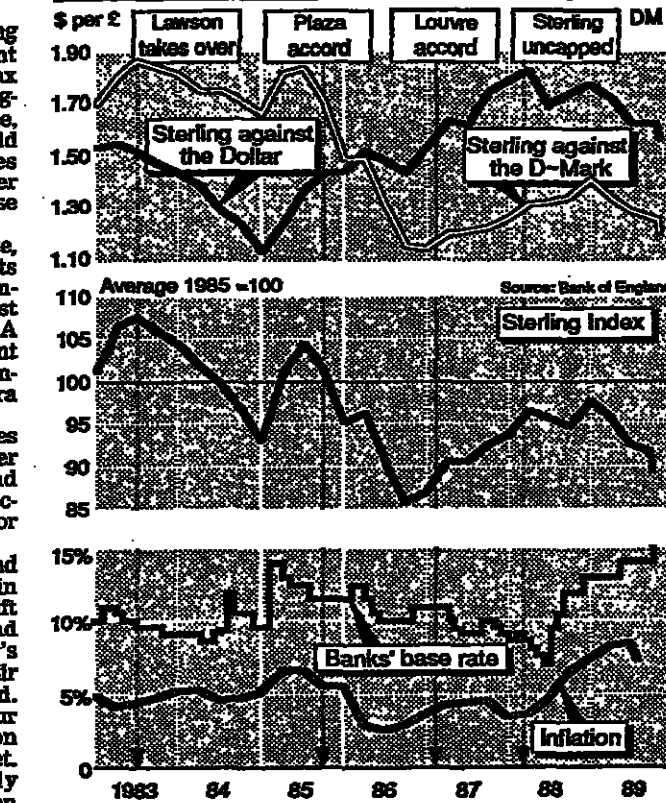
The fall followed a bout of substantial selling in the morning. Although officials insisted that Britain was maintaining a tight monetary policy, yesterday's drop in sterling undermined the difficulties facing Mr Nigel Lawson, the Chancellor of the Exchequer, in maintaining a firm and stable exchange rate.

The fall in the exchange rate is another blow to Mr Lawson, who was yesterday writing his speech to be delivered on Thursday at the Conservative Party's annual conference in Blackpool. Last Thursday he ordered a rise in interest rates in part to bolster the pound's value on the foreign exchanges.

Analysts said they did not think the Government was prepared to raise interest rates again and so risk pushing the British economy into recession. This reduced the attraction of the pound to foreign investors.

The sharp decline in sterling against the D-Mark unsettled UK financial markets, with share and Government stock prices falling. The FTSE 100 Share Index closed 30.5 lower

The £ under Lawson's chancellorship



he certainly did not dissent from the decision, the Treasury said. Both Bank and Treasury officials were in the room at the time.

Honecker says Communism must survive

By Leslie Collett in East Berlin

MR Erich Honecker, the East German leader, yesterday compared the wave of protests in East Germany to China's pro-democracy uprising and warned that any attempt to undermine communism in his country would fail.

In a meeting with a visiting Chinese delegation, he said East Germany would continue "undeterred to perfect socialism" under the watchword of "continuity and renewal".

The official ADN news agency said Mr Honecker told Mr Yao Yilin, visiting Chinese Deputy Prime Minister: "Any attempt by imperialism to destabilise socialist construction, slander its achievements, is now and in the future nothing more than Don Quixote's futile running against the steadily turning sails of a windmill."

He was speaking less than two days after East Germany's 40th anniversary celebrations ended in fighting in the streets between security forces and thousands of people demanding political change.

The East German authorities were braced last night for renewed protest demonstrations in East Berlin, Dresden and Leipzig. Thousands of people in Leipzig were gathered at Nikolai Church where the regular Monday evening service became a focus for regular debates. Last week the service was followed by a protest march in the city centre, broken up by the police.

Meanwhile, the first signs of dissent in the party leadership emerged yesterday when Mr Hermann Kant, a long-time party stalwart who is head of the East German Writers' Union and a member of the Central Committee, openly criticised the leadership for failing to address the real problems causing the exodus of citizens to the West.

He called the mass escapes and emigration a "defeat" for East Germany. Mr Kant attacked press propaganda which blamed West Germany for the exodus and called for "self-criticism" in an open letter to the Communist Youth newspaper, Junge Welt.

His remarks were the first public criticism of the party leadership by a Central Committee member and reflected growing pressure from rank-and-file Party members for reforms.

In East Berlin the second successive night of demonstrations went on into the early hours of yesterday morning as several hundred young protesters were set upon by police and special Interior Ministry troops with rubber truncheons and water cannon.

More than 100 demonstrators were taken into custody, bringing the total number detained since Saturday night's demonstration to more than 800, of whom nearly half were still in custody late yesterday. More than 100 protesters were said to have been injured in the latest skirmishes began when some 3,000 people gathered in East Berlin's Gethsemane Church for the evening service held to gain the release of political prisoners.

David Marsh in Bonn adds: The West German Government yesterday accused the East German Government of brutally suppressing pro-reform protests and formally protested about East German hindrance of West German journalists trying to report the disturbances in East Berlin on Sunday night.

Mr Helmut Kohl, West German Chancellor, condemned the police crackdown and told reporters: "While the leadership celebrated with torch-light parades, goose-steep and military marches, the world witnessed the East German police and state security break up peaceful demonstrations with brutal violence."

He said the crackdown represented the "deep insecurity of the East German authorities." However, Mr Kohl said West Germany would be ready to provide help for East Germany provided the communist state decided to introduce thoroughgoing political and economic reforms.

GM, Jaguar discuss joint ventures

By Kevin Done, Motor Industry Correspondent, in London

GENERAL MOTORS of the US, the world's largest car maker, confirmed last night that it was considering taking a minority stake in Jaguar, the UK luxury car maker.

The GM move came three weeks after Ford of the US triggered a bitter trading in Jaguar shares with an announcement that it planned to buy up to 15 per cent of Jaguar with a view to becoming a "major shareholder".

Jaguar, which is seeking to preserve its independence and to fight off the "unwelcome" Ford initiative, said last night that it was in discussions with GM "concerning the possibility of the two companies entering into certain manufacturing, marketing, and other commercial joint ventures." Jaguar said GM was considering taking a minority interest.

This statement came after the close of stock market trading in London. The company's share price had fallen by 48p on the day to close at 685p. Dealers said the market feared that an agreed GM stake might incline Ford to back away from an auction for the company.

It is understood that the two companies have been in discussions for about a month as part of Jaguar's campaign to ensure its independence following the expiry of the UK Government's so-called golden share at the end of 1990.

Earlier parallel talks with Ford made clear that it wanted to take majority control. At present Jaguar's articles of association limit individual shareholders to a maximum stake of 15 per cent. This limit can only be changed Govern-

Fininvest builds Saatchi stake but denies plans for takeover

By Alan Friedman in Milan and Alice Rawsthorn in London

MR Silvio Berlusconi's Fininvest group revealed yesterday that it had built up a shareholding of just over 1 per cent in Saatchi & Saatchi, the troubled international marketing group. Fininvest insisted, however, that it did not intend to mount a takeover bid.

Saatchi, once one of the world's most successful marketing groups, has been hampered by takeover speculation in recent months. The speculation reached a peak on Friday when its shares soared in frenetic trading and Mr Berlusconi was mooted as a prospective bidder. Saatchi's shares rose again - by 9 1/2p at 349 1/2p in London yesterday.

Fininvest, the master Berlusconi media interests, said it had acquired 1.75m Saatchi shares "for investment purposes" and that it had "no intention of seeking to acquire Saatchi".

Mr Oliver Novick, an American-born executive who is in charge of corporate develop-

Fininvest builds Saatchi stake but denies plans for takeover

ment for Fininvest, said the Saatchi stock had been bought in June and July through Goldman Sachs in London and its own mutual fund in Italy. "We bought the shares for investment purposes because it seemed like a good idea."

Fininvest is believed to have spent just over £5m on its Saatchi stake which, at yesterday's share price, would be worth just over £2m. It sold a small amount of Saatchi shares in August.

Mr Novick said Mr Berlusconi had "been contacted by any number of people who wanted us to launch a takeover of Saatchi". He added that Fininvest had not bought any Saatchi shares in the heavy trading of recent days.

Fininvest, the master Berlusconi company, employs a workforce of 25,000 people and had consolidated 1988 revenues of £3,000m (\$5.8bn). Fininvest is wholly owned by the Berlusconi family although Standa, its retail subsidiary, is quoted on the Milan bourse.

Fininvest builds Saatchi stake but denies plans for takeover

Saatchi confirmed yesterday that it had been aware of the Berlusconi holding since September when it issued a notice under Section 212 of the Companies Act. A Section 212 notice enables companies to identify the beneficial ownership of its shares.

Saatchi leapt into the limelight in the mid-1980s by staging a series of audacious acquisitions in the marketing sphere. It is now suffering from the slowdown in advertising growth in the US and UK. It has also encountered problems with its management consultancy interests.

The group is expected to announce a sharp fall in pre-tax profits from \$138m (\$20m) to about \$70m when its results for the year to September 30 are published in early December. Saatchi is cutting costs at its agencies. The consultancy businesses have been up for sale since early summer but Saatchi is said to be finding it difficult to sell them.

Lex, Page 20

MARKETS

Table with columns for Sterling, Dollar, and Gold prices. Includes exchange rates and commodity prices.

STOCK INDICES

Table with columns for FT-SE 100, FT Ordinary, FT-A All Share, FT-A long gilt yield, and US LUNCHTIME. Includes various stock market indices.

CONTENTS

Table of contents listing various articles and their page numbers, including 'Rising Inflation in Brazil may be blessing in disguise'.

Management Untangling the red tape on a Spanish start-up

Table of contents listing various articles and their page numbers, including 'Biotechnology Prospects undimmed by slow commercial progress'.

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EUROPEAN NEWS

France launches protection plan for the Antarctic

By Ian Davidson in Paris

THE FRENCH Government yesterday publicly launched its proposal for an environmental protection system in the Antarctic, which it hopes would make the region a protected "Nature Reserve".

The main effect of the French plan is effectively to override the Wellington Convention for the Regulation of Antarctic Mineral Resource Activities (Camra), which was concluded by the member states last year.

The convention would impose strict limits on mineral exploration or exploitation, but the French Government now believes that it would be better to ban any mineral exploration.

The plan was proposed formally by Prime Minister Michel Rocard, when he opened the fifteenth consultative meeting of the 39 states which are signatories of the Antarctic Treaty.

The French proposal, which is being jointly sponsored by Australia, is that member states should hold a special negotiation on an environmental regime next year.

Mr Rocard said the negotiation should lay down the principles for regulating all human activity in Antarctica, set out

means for preventing and correcting environmental damage, and establish permanent institutions for the environment in Antarctica.

A number of important countries have already signed the Wellington Convention, including the US, UK, China and the Soviet Union.

The British Government is strongly committed to the convention, which took six years to negotiate, and it looks with a jaundiced eye on the French initiative.

French sources, however, claim that they now have tacit support at least from Belgium, Italy, India and Chile, and appear confident that the 10-day-long Consultative meeting will, in the end, agree to a new environmental negotiation in 1990.

Since decisions can only be taken by consensus, the brunt of the argument will be over the mandate for next year's meeting.

The first decision of the meeting was to admit three additional signatories to the inner circle of Consultative Parties which take decisions.

The addition of South Korea, Finland and Peru brings the total number of Consultative Parties to 25.

Poland takes Western agencies into new territory

Funding bodies are weighing the options in an unprecedented transformation, writes Stephen Fidler

SINCE THEY were presented with a dramatic plan of economic reform for Poland's beleaguered economy in Washington last month, Western economic policy makers have been considering what should be their proper role in encouraging the transformation.

They recognise that time is not on their side. Yet the magnitude of the economic difficulties - which according to one senior monetary official in Washington surprised even the new government - calls for a response which they recognise may set precedents for others.

Officials from Western governments, the International Monetary Fund and World Bank, readily acknowledge that they are in uncharted waters. No other socialist country has attempted so deep and so rapid a transformation to market-based economy. So although the EC, the US and others have started to earmark funds for the Poles, they have not moved far in identifying where the help should be directed.

The questions under consideration cover how much financial support Poland needs from the West and what is the best way to provide it, what kind of technical, financial and managerial know-how will be needed and, last, how might it be possible to draw a ring fence around Poland so that other highly-indebted countries do not claim equal treatment.

Poland's problems are intensified by its foreign debt, and the recogni-

tion that unless a large part of it is forgiven, Poland will never emerge.

The country's hard currency foreign debt amounts to about \$36bn - \$26bn to creditor governments grouped under the auspices of the Paris Club, \$9bn to the commercial banks and the rest to others, including Eastern bloc governments.

If Poland were to service all these debts, it would absorb 90 per cent of its export earnings. Instead, actual debt servicing has been running at closer to 25 per cent of exports. Its problem is that most of this debt is owed to Western governments.

Unlike the banks, which are being encouraged to write down their debts under the new Brady debt initiative launched earlier this year, Western governments have never conceded debt write-offs for export credit loans, except in the case of the poorest sub-Saharan African countries.

The Paris Club is, however, willing to reschedule both principal repayments and interest. If this is done, it means that Poland's debts will increase annually by the amount of interest it has left unpaid. In other words, to keep its debt service burden even at the current untenable levels, its exports will have to grow at a faster rate than the rate of interest. Otherwise, it will never catch up.

Western officials privately admit this is a severe quandary. While some concede debt forgiveness appears essential, if they grant it to Poland, then there would be an endless list of

other middle-income debtors which would demand similar treatment.

It has led to the conclusion that except for loans from the IMF and World Bank, grants are the obvious way in which new Western funds will have to be channelled into the country. Where this money should be applied and technical assistance is most needed, therefore depends on Poland's economic priorities.

In the short run, Poland's main Finance ministers of the European Community yesterday took the formal decision to guarantee European Investment Bank loans for Poland and Hungary. Strictly speaking the EC initiative has yet to be endorsed by the EIB's board of governors - but since that comprises virtually the same people the final go-ahead is considered certain.

One obvious target for Western aid, in the view of some officials, is therefore to help underwrite an unemployment and rehousing fund, taking pressure off the budget deficit.

Many are keen also to see large scale privatisations. This has the potential to do several things: encourage entrepreneurial management, divert cash balances from consump-

tion into investment spending and provide a channel for foreign investment.

Debt-equity swaps could also help to reduce commercial debt burdens as well as bring in foreign investment and expertise.

In the words of the World Bank: "Poland lacks the kind of financial intermediation system that promotes sound investment selection and financial discipline at enterprise level."

The lack of a developed financial system means there are essentially three investment alternatives for Poles: bank deposits, consumer goods or foreign currency. This array of choices must be expanded.

Bankers with the means to make commercial judgments are not made overnight, and here there is clearly a role for Western managerial advice, perhaps with the encouragement of joint ventures with Western financial institutions.

One problem already apparent is the potential for confusion if the western response is not co-ordinated. Bilateral and multilateral initiatives threaten to overlap and confuse. Yet while there is no demand for a new international agency, it is not yet clear which of the existing ones has the wherewithal and the broad support to take over that role.

In this as elsewhere, Western officials are aware of the problems but less sure of the answers. "It's all new to us. I don't know what's going to happen," admitted one last week.

Far-right German party warms to National Front

By David Goodhart in Bonn

WEST GERMANY'S far-right Republican Party and France's far-right National Front have announced closer co-operation, after talks at the weekend in Munich, despite the traditional anti-German feeling of the French right and differences over the Italian-speaking minority in Austria.

Mr Franz Schönhuber, the Republican leader, said the talks had gone "wonderfully"; but in his own backyard he has faced a series of controversies since the Republicans' first success in the West Berlin elections in January.

Although the party again

performed well in the recent communal elections in North Rhine Westphalia - winning more than 5 per cent in several Social Democrat ruled towns in the industrial Ruhr - there are growing doubts that they will attain the 5 per cent threshold required for Bundestag representation in the 1990 national election.

The Verfassungsschutz (Office for the Protection of the Constitution) has classified the Party as "extreme right wing" rather than unconstitutional but has postponed a decision on whether to keep a watching brief on it.

By Tim Dickson in Brussels

THE FIRST loans to Poland and Hungary from the European Investment Bank are likely to be targeted on infrastructure and industrial projects. Terms, conditions, and the overall scope of the EIB programme will be heavily influenced by the "macro-economic" conclusions of the International Monetary Fund.

But an important feature of the operation will be close co-operation with, and possible co-financing alongside, the World Bank.

These points emerged from an interview with EIB president Mr Ernst-Günther Broder and the bank's new British vice-president Mr Roger Lavelle. They were their first public comments since the European Community announced its intention to make available up to Ecu1bn (2885m) in new

loans for the two reforming Eastern bloc countries.

The money involved is part of a wider international aid effort being co-ordinated in the West to help Poland and Hungary breathe new life into their economies - but the proposed EIB lending programme represents a significant new challenge for an institution whose chief activity is the provision of long-term project finance for the already developed countries of the EC.

Created by the Treaty of Rome in 1958 to finance capital investments on a non-profit making basis, the EIB's main purpose is to promote the "balanced development" of the European Community. It operates as a bank, raising the bulk of its financial resources on world capital markets - with the considerable

benefit of its Triple A rating - and lending most of its money to projects in the less-favoured regions of the EC.

The EIB already plays an important role in implementing the EC's development policy, both under co-operation agreements with 12 countries in the Mediterranean region (including Yugoslavia), under the Third Lomé Convention with 66 African, Caribbean and Pacific countries, and through more ad hoc arrangements where projects are clearly identified as benefiting both a "third" country and member states. Of the bank's total Ecu10bn lent in 1988, around Ecu700m was to developing countries.

In both "models" member states of the EC, using the EC's own budget (for the Mediterranean countries) and the

directly-financed European Development Fund (for Lomé) provide significant sums of "risk capital" enabling the EIB to "soften" the terms and conditions of its loans.

Mr Broder and Mr Lavelle insist that in the case of Poland the amounts which will be advanced, the kind of projects and the conditions are still "completely open".

"The kind of projects are undefined but we would tend to think as far as we are concerned of two sectors - infrastructure and industry - as being the first type of approach," says Mr Broder.

Much will depend, they believe, on the ideas and thoughts of other institutions such as the IMF and the World Bank.

Says Mr Lavelle: "The World Bank has done a lot of think-

ing about the difficult process of transition to a market economy. We will certainly want to co-operate with them in general terms or through specific investments. We know them as a valuable partner in other regions of the world."

As for the IMF, Mr Broder explains that the EIB "is certainly looking forward to getting its views as far as the macro-economic situation is concerned".

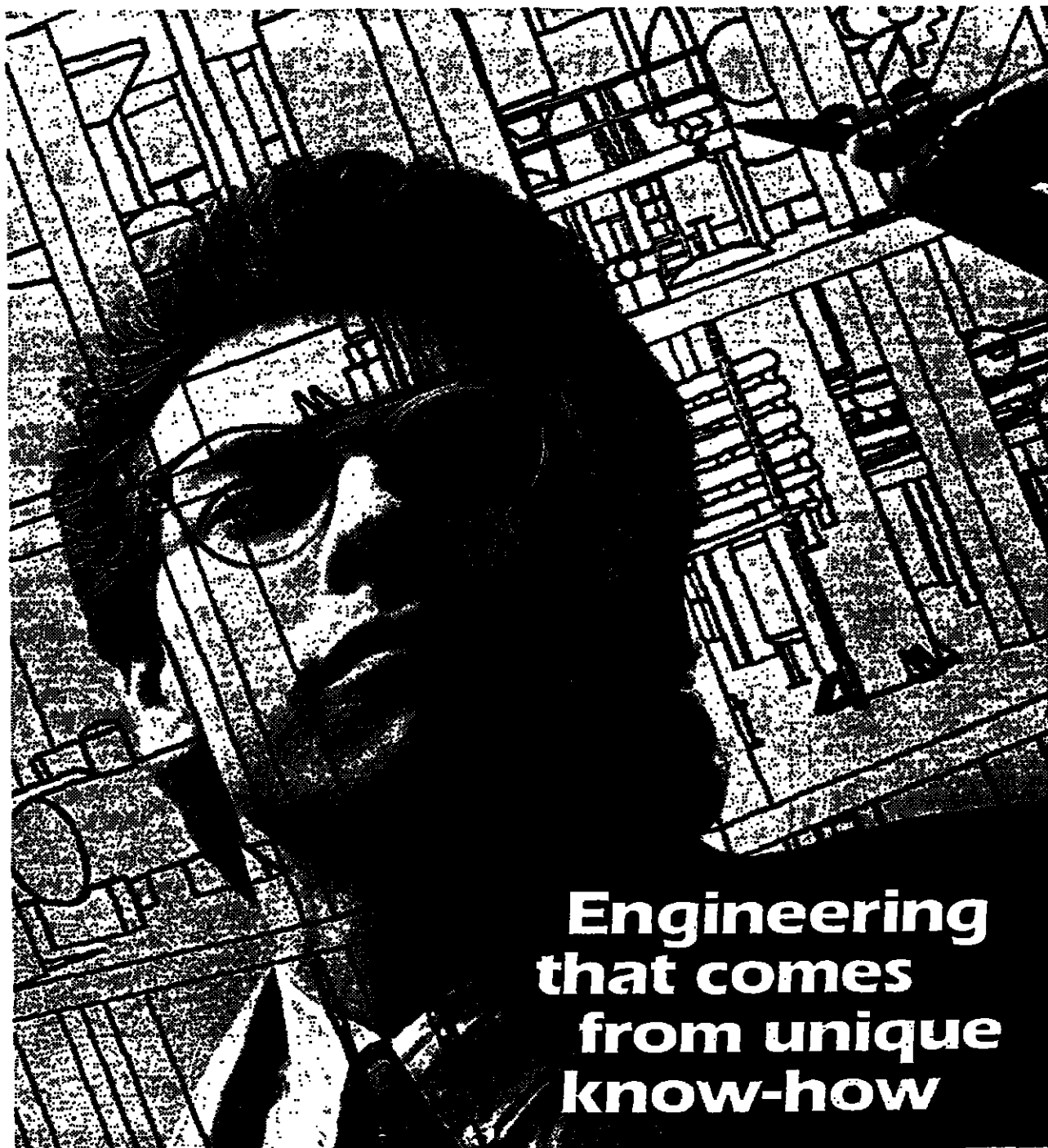
"We expect the IMF to proceed quickly. We anticipate quite a fast pace which is what the Polish authorities want."

The IMF's conclusions will certainly be important in determining the conditions of the Poland and Hungary programme - "we want to develop the instrument step by step and tailor make it", says Mr Broder - but the EIB pre-

ident adds that the bank would expect to concentrate on "feasible and self-supporting projects".

Though Mr Lavelle stresses that at this stage "we don't know the mix" of lending from the EIB's own resources and any risk capital provided by the Community he clearly doubts whether the Lomé model - "where only some countries can afford to repay commercial loans" - is an appropriate one for the new process.

"What we are trying to achieve here is to turn a country with a lot of potential, resources, and educated workforce into a creditworthy country. The situation with Lomé is not comparable. We need to be careful about transferring techniques from one continent to another."



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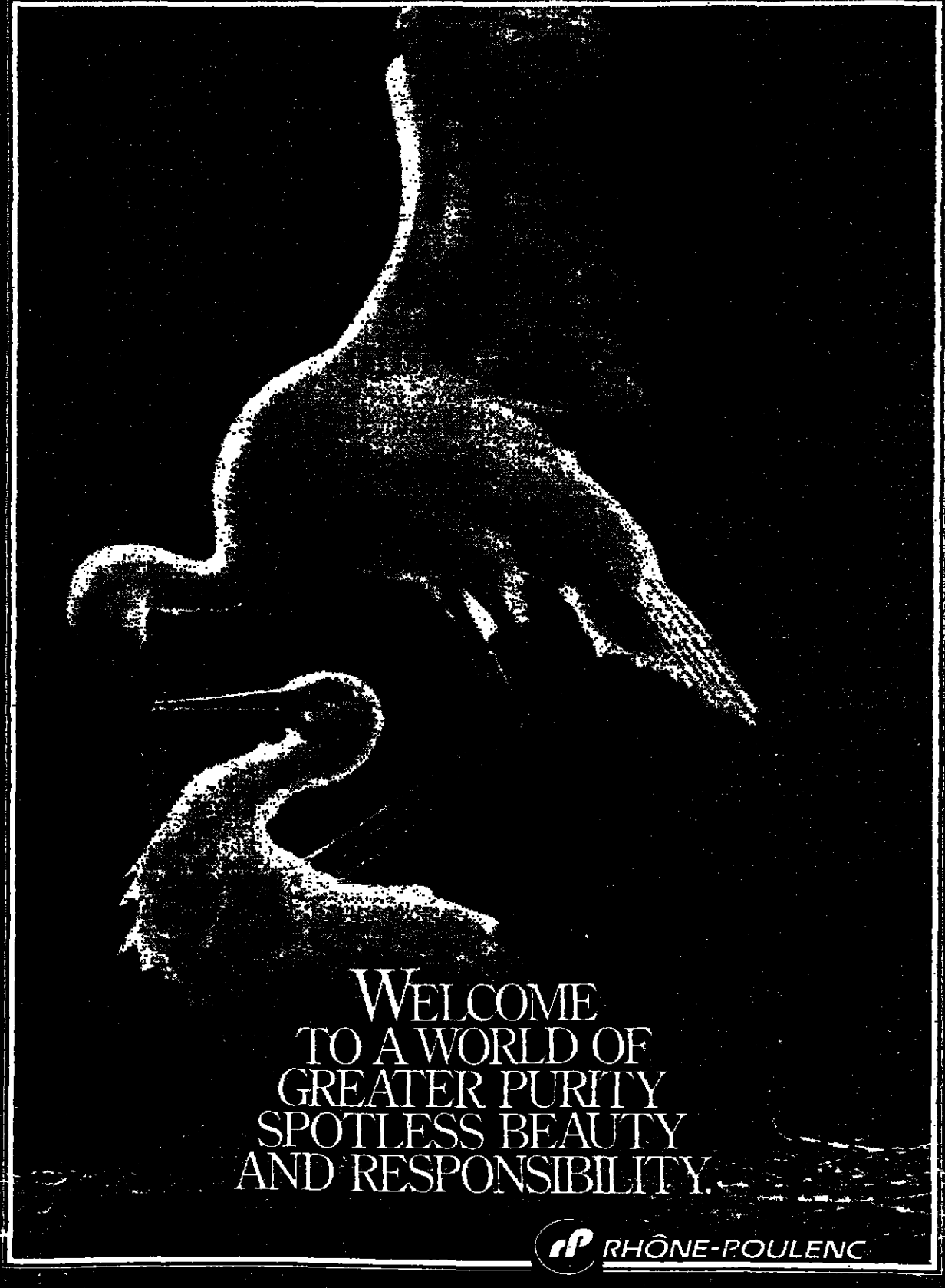
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EUROPEAN NEWS

Pechiney puts pressure on Brussels over smelter plan

By William Dawkins in Paris

PECHINEY, THE world's third largest aluminium producer, has threatened to scrap a planned FF1,500 (\$370m) plant unless the European Commission clears it from allegations of illicit state aid by the end of the month.

Mr Jean Gandols, chairman of the French nationalised group, has said he will abandon the scheme unless the Commission rules against claims, lodged nearly a year ago by British Steel, that the project infringes EC competition rules, or at least decides that only minor changes are needed.

The group has invested FF1,500m in the early phase of the project, which would create 650 jobs in the high unemployment area of Dunkerque and be the group's biggest smelter, producing 200,000 tonnes of aluminium annually.

Mr Gandols has now decided

that Pechiney cannot afford to risk more while the project's future is uncertain, say company officials. British Steel, backed by a West German tin-makers' association, complained to Brussels nearly a year ago that the plant was being offered electricity at an unfairly low price from a nearby nuclear power station owned by Electricité de France (EDF), the public utility.

Threats of this sort are common in rows over EC state aid rules. Yet this project is especially sensitive because it is EDF's first significant attempt to use up its surplus of nuclear-generated electricity - the legacy of an over-ambitious power station building programme.

EDF officials say they are hoping for up to five similar deals and are already talking to "several" French and foreign companies, believed to include a leading Swedish paper producer.

At Dunkerque, EDF would take a 49 per cent stake - with Pechiney taking the rest - in a management company that would provide the plant's working capital. EDF would sell power at a price based on its cheapest export rate, but this would rise with the plant's profits. The cash for construction of the smelter itself would come from Pechiney plus institutional investors, who will be approached once a decision has been made from Brussels.

In a separate move, Pechiney has announced a FF1,500m plan to increase the capacity of a rolling mill at Neuf-Brisach in eastern France from 265,000 tonnes to 350,000 tonnes annually. This makes it one of the world's four largest mills, and it will process a large part of Pechiney's 360,000 tonne annual capacity.

Portugal may limit foreign holdings in privatised companies

By Patrick Blum in Lisbon

THE PORTUGUESE Government is studying proposals to limit the influence of foreign investors in newly privatised companies. The aim is to help create a strong nucleus of Portuguese shareholders to ensure that important companies, especially financial institutions, remain in domestic hands.

One proposal foresees privatisations being undertaken in separate tranches with a pre-qualifying round during which the Finance Ministry would select an appropriate "hard nucleus" of Portuguese investors.

After the initial euphoria following spectacularly successful privatisations this year, the authorities have become concerned about the future ownership of companies. Each privatisation has seen strong demand from international investors, leading to fears that some large concerns could come under foreign control.

The outcry in some sections of the press about "the country being up for sale," is putting political pressure on Mr Anibal Cavaco Silva's Social Democratic Government, which is committed to selling off state assets seized during Portugal's

1975 revolution. It will shortly present new legislation to facilitate privatisations, but it also wants to safeguard Portuguese interests.

There is already a 10 per cent limit on the amount of shares foreign investors can buy in companies being privatised. This means a maximum foreign holding of 5 per cent because in each privatisation to date, only 49 per cent of shares were offered to the public. However, this will change next year as the Government sells its remaining stake in some companies and others come up for privatisation, including Banco Portugues do Atlantico, the country's largest state-owned bank.

The Government's problem is that foreign groups have sought, with some success, to circumvent the 10 per cent limit by buying shares through local subsidiaries or making alliances with Portuguese companies.

Big foreign groups have gained significant positions in the part-privatised Banco Totta e Acores and in insurers Alianca Seguradora, with the objective of winning representation on these companies' management boards.

Dull, perhaps, but that's part of being a normal democracy

Peter Bruce previews a predictable Spanish election

CAMPAIGNING begins today in Spain's fifth democratic election since the death in 1976 of General Francisco Franco. The election is being held on October 29 so what is about to happen will, mercifully, be brief.

Prime Minister Felipe Gonzalez's Socialist Party will win, probably, though not certainly retaining its overall majority in the Cortes. The right-wing Partido Popular (PP) will come second, followed by either the communist Izquierda Unida (IU) or former Prime Minister Adolfo Suarez's populist Cen-

tro Democrático y Social (CDS). Voters will turn out in fewer numbers than ever.

But the result is not really the issue: whether to rejoice in or weep for the almost complete absence of ideas, ideology, debate or even passion in Western Europe's youngest democracy three weeks ahead of an election is.

Alvaro Gil Robles, the government-appointed Public Ombudsman, welcomes the calm. "I'm glad to say it, but I don't think Spain is the kind of place that foreign journalists can win prizes writing about any more. We have become normal. The important thing is to be able to vote. If people don't have any problems they may not bother."

The campaign will parody what many Spaniards and their liberal friends abroad once hoped Spanish democracy would be like. The parties - there are no individual candidates as such - will each try to buy votes. Like the good marketing men they have become, the Socialists have

packaged themselves as airline pilots - handsome, going slightly grey, dependable, technically superior and fatherly. Daddy, says the message, is going to take you flying.

The fact that they have been hurried into calling the election eight months early by a deteriorating economy and the first hints of a fall in property prices in the cities has been quickly forgotten.

This was easy, for if the Socialists have become arrogant, aloof and even corrupt during their seven years in power, their opponents are to blame. Mr Suarez's years out of power have put so much distance between himself and reality that he now refuses to attend parliament unless Mr Gonzalez is there as well. Mr Suarez, who will do anything for a vote, is proposing this time to scrap military service and to pay unemployed youths a minimum wage.

The hard sell has already reached its apotheosis with Mr José María Ruiz-Mateos, the businessman facing fraud charges in relation to the expropriation of his Rumasa banking and industrial empire. He won two seats in the European Parliament, and this time is promising to run Spain from the Basque country if he becomes Prime Minister.

Mr José María Aznar, the personable young man chosen by the PP's founder, the Francoist minister Mr Manuel Fraga, has said hardly a word about the economy so far. His manifesto promises to privatise practically all of the state's industrial interests but it is hard to be sure he means it. Instead, Mr Aznar has quickly thrown himself into gimmickry.

Last weekend he threatened not to stand at the head of PP elections unless the Government did not stop manipulating the television news. The newspapers that support him manipulate news all the time but only 8 per cent of Spaniards read newspapers and with all the other opposition parties complaining about the state television's coverage of



Galligo & Rey in El País sum up the election: Gonzalez is centre, Fraga, left, and Suarez right

El País, the prestigious Madrid daily newspaper, said yesterday its research showed that, yes, the Socialists are getting much more exposure on TV than the opposition and that news about Spain was devoted in large part to what a wonderful and healthy place it was. The truth, however, is that there were more news items devoted to the opposition much of it would have to be negative simply because they are so weak and fractious.

According to most polls pub-

lished so far, the PP will win about 22 per cent of the vote, the CDS about 8 per cent, the IU, winning support in the large cities, could rise sharply to 10 per cent and the Socialists around 40 per cent.

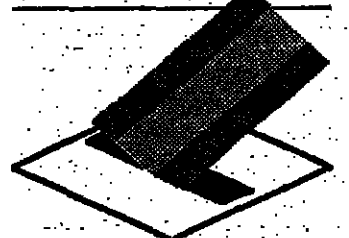
Mr Gonzalez's ministers have made it clear that even if they lose their overall major-

ity, they will rule alone. This could easily be done by buying off one of the smaller nationalist groupings in the Cortes.

The Socialists, though, are trying hard to hold onto the majority. For the first time, the party has instructed its people on its electoral lists to get on to the streets and campaign door to door.

This will come as a great surprise to Spanish voters, most of whom have never had an opportunity, under the proportional representation system, actually to talk to the people who are supposed to represent them.

Spanish Elections



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Ozal keeps his counsel on presidential aspirations

By Jim Rodgers in Ankara

THE ELECTION for a new President in Turkey is looming with no clear statement of intent from Mr Turgut Ozal, the Prime Minister. Parliament votes on a replacement for President Kenan Evren on November 9 and formal declarations of candidacy must be made in the next nine days.

Only Mr Kasim Gulak, an octogenarian with a venerable political past, but considered far too old, has put his name forward so far. Mr Ozal is increasingly likely to run, however, despite the dismal rating in opinion polls of his ruling Motherland Party (ANAP) two years into a second term of government.

All he has said directly is that the next President will come from Parliament and probably from ANAP. However, last week he declared his eligibility in the mass daily newspaper *Yurtsey*, and then ruled out choosing candidates with either of the two other parliamentary parties, the main opposition Social Democratic Populist Party, and the True Path Party.

They have threatened to boycott the process, accusing ANAP of not having a significantly popular mandate anymore. Its support shrank to 18.5 per cent in a recent poll.

The Government's 229 seats

in the 450-seat Parliament should guarantee that Mr Ozal wins on the third round of voting, when only a simple majority is required.

It is unlikely that the election will go to its fourth and final round, which must be followed by a general election if there is no outright winner.

But Mr Ozal is likely to wait until the very last day and probably the last hour before revealing his decision, according to Mr Mehmet Kecedler, a leading contender for the premiership and ANAP chairman in the event of an Ozal presidency.

Other possible replacements for Mr Ozal as Premier and party chairman are Mr Ekrem Fakdemirli, the Finance and Customs Minister, Mr Hasan Celal Guzel, the former Education Minister, Mr Husnu Dogan, the former Agriculture Minister, and the ambitious young Foreign Minister, Mr Mesur Yilmaz.

The latter is a favourite of the party's liberal wing, but would be vigorously opposed in the party congress soon after Mr Ozal's elevation by Mr Kecedler, who leads the "holy alliance" of Islamic conservatives and right-wing nationalists which account for around a quarter of ANAP's parliamentary group.

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Yugoslav call for multi-party system

Opposition groups in Yugoslavia have called for a multi-party democracy and an amnesty for all political prisoners, the Yugoslav news agency Tanjug said yesterday, Reuters reports.

About 30 members of groups from Slovenia, Croatia and Serbia, meeting in the Slovenian town of Otocec ob Krki on Sunday, also called for the offence of slandering the state to be abolished, Tanjug said.

A score of opposition groups have sprouted up, particularly in Slovenia and Croatia, over the past year.



OVERSEAS NEWS

Iraqi ministers fired as strains show in economy

By Victor Mallet

PRESIDENT Saddam Hussein of Iraq has sacked his Finance Minister and his acting Agriculture Minister...



Saddam: ambitious plans

Mr Hikmet Mukhalif was dismissed from the Finance Ministry at the weekend and replaced - for the time being - by Mr Mohammed Mehdi Saleh...

No one has yet been allocated the agriculture portfolio following the dismissal of Mr Abdullah Badr Danouk...

Iraq's foreign debt is estimated at between \$55bn and \$80bn and food imports cost some \$2bn a year...

Rafsanjani proposes sale of state-owned factories

By Kamran Fazel in Tehran

THE Iranian Cabinet has proposed that state-owned factories should be sold to the private sector...

It is doubtful whether the Government will easily find buyers for these plants, which have been poorly managed...

Three airports to be built in the Hong Kong region

By John Elliott in Hong Kong

THREE airports are to be built within a radius of 60 miles in the Pearl River Delta...

Plans for Hong Kong's new two-runway international airport, to be located at Chek Lap Kok...

The article is significant because it is being seen as a response to demands for China to rebuild confidence in Hong Kong...

strategy because it would enhance its "characteristic as an international commercial city"...

Sir David is expected to announce that a new provisional airport authority will be set up early next year...

the project is viable for international financing, despite its 1997 initial opening date...

Passenger traffic was growing at 20 per cent annual rate earlier this year, but this has dropped to 11-12 per cent in the past two months...

airports could help ease Kai Tak's load. The airport planned for the Portuguese enclave of Macao...

A group of Chinese corporations, including the Bank of China, have a one-third stake in the Macao International Airport Company...

an important demonstration of its continuing commitment to international joint ventures.

The decisions to go ahead with all three airports finally bury earlier ideas for a shared dual-nationally airport...

Further damaging disclosures about payments of large commissions to an Indian agent by Bofors...

China refuses to accept return of illegal immigrants

By John Elliott

CHINA HAS refused to accept the repatriation of over 100 illegal immigrants from Hong Kong...

It is believed to be a retaliation for Hong Kong allowing Mr Yang Yang, a Chinese swimmer who is now being fitted by overseas Chinese dissidents...

fly to the US last week instead of sending him home.

Under a seven-year agreement, China automatically takes back on average 69 people a day who have illegally entered Hong Kong...

government officials will today investigate reports that China intends to disrupt the flow by checking the history of each individual.

China's decision on the immigrants follows a tense meeting of the Anglo-Chinese Joint Liaison Group...

should take measures to restore the confidence of the people of Hong Kong following the violent suppression of students' demonstrations...

China's decision on the immigrants follows a tense meeting of the Anglo-Chinese Joint Liaison Group...

S African interest rates edge higher

By Paul Waldmeir in Johannesburg

THE South African central bank said last night it was raising its bank rate by 1 per cent...

It was the third interest rate rise this year, taking the South African Reserve Bank's discount rate to 18 per cent.

Mr Chris Stals, the Reserve Bank governor, said these rises had increased the already large differential between real interest rates overseas and those in South Africa...

Japanese 'lack skills for aid programmes'

By Stefan Wagstyl in Tokyo

JAPANESE government officials are concerned they lack the experience and manpower to organise the country's massive overseas aid programme properly.

Japan last year was the world's second largest provider of Overseas Development Aid - disbursing \$9.13bn against the US's \$9.78bn...

"We do face a challenge," Mr Takemori Kitamura, director of the ministry's economic co-operation bureau, said last week.

Japan had to improve the efficiency of aid distribution and its quality. Programme planning, policy dialogue with recipient countries, implementation and post-project evaluation - all these areas had to be improved...

it was difficult to get approval when the Government wanted to slim the overall size of the bureaucracy.

Japan intended to increase aid, and would probably become the world's largest official donor, he added. But Japanese private aid remained small...

US highlights sunny side of Tokyo relations

By Ian Rodger in Tokyo

A SENIOR US diplomat yesterday described Japan as a "close friend" and "staunch security ally" of the US...

On the capital account of the balance of payments, the exchange rate is eventually on the rate of inflation, Mr Stals said.

The maintenance of positive real interest rates was even more important for South Africa than for continental Europe or the UK...

In addition to the rise in bank rate, which takes effect tomorrow following today's public holiday, the Bank would also increase rates at which it provides accommodation to the market by 1 per cent.

Mr Stals, who took over as Reserve Bank governor two months ago, has made the fight against inflation his highest priority.

terday that was aimed to amplify the idea of a "global partnership" between Japan and the US...

Coming at a time when many US politicians and commentators are referring to Japan as a threat and calling for a much tougher stand against Tokyo on trade issues...

Japanese government and corporate leaders are still reacting from the angry reaction last week in the US to Sony Corporation's acquisition of Columbia Pictures...

Mr Kimmitt, who as much as admitted he was in the latter camp, was in Tokyo for regular discussions on regional, international and security issues.

He also argued that the bilateral economic relationship was a source of strength for the world as a whole.

Further disclosures are expected to be made by The Hindu tomorrow, the day the Indian Parliament meets for a four-day session...

Documents published by The Hindu yesterday disclose that the Bofors officials admitted to the Swedish National Bank in December 1986...

The agent is not named in the documents but The Hindu concludes that "this is a clear reference to Mr Wiza Chidambaram, an Indian national and resident who has represented Bofors in India from the 1970s"...

Jordan lifts ban on imports of luxury goods

JORDAN yesterday lifted a ban on imports of luxury goods as officials reported an increase in exports and an improvement in the country's foreign reserves...

The ban was imposed last November in an effort to save the country's depleting foreign reserves and to boost Jordanian exports.

But yesterday Mr Basil Jaradat, Minister of Finance, announced that Jordan's exports - mainly of phosphate, potash and fertilisers - had increased by 20 per cent in the first half of this year...

He also argued that the bilateral economic relationship was a source of strength for the world as a whole.

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Peace talks failure returns the spotlight to intifada

Palestinian uprising's leadership is torn between escalation and further hardship, writes Hugh Carney

AS THE prospects receded last week of a breakthrough in efforts to get Israel and the Palestinians to talk peace, the focus returned to the intifada...



The stones against bullets image of the uprising remains in place, but for how long?

Few people, even among Israelis, suggest the uprising, the second anniversary of which is two months away, is about to be extinguished by the Israeli army...

However, the lack of tangible political progress and the simultaneous relaxation of the conflict on the 1.7m Arab inhabitants of the West Bank and Gaza Strip pose awkward questions for the "Unified Leadership"...

Last week provided an example of the dilemma facing the leadership, an inevitably fluid coalition of Palestine Liberation Organisation factions...

Just as speculation rose that an attempt by President Hosni Mubarak of Egypt to bring Israeli and Palestinian delegations together for talks might bear fruit - later to be dashed by the Likud party of Prime Minister Yitzhak Shamir - the Unified Leadership issued a leaflet calling for an escalation of the intifada...

unprecedented five general strikes in six days. The leaflet was a response to recent tough Israeli actions in the territories...

Dr Saeb Erakat, an academic and journalist from Jericho and hardline supporter of the intifada, says the latest leaflet was evidence that those within the leadership inclined to place emphasis on the political process had been pulled back into line by pressure from below...

propaganda gains the PLO has earned from the stones against bullets image of the intifada and it would invite much greater forces in retaliation.

Dr Erakat predicts more campaigns of civil disobedience such as the Beit Sahour tax boycott. The severity of the Israeli response there indicates that the authorities are worried by such a prospect...

Much may turn on the extent to which impatience over the political deadlock spills into the street. Palestinians are being urged to say that a feeling in the end to say that the intifada would quickly achieve its political aims has been replaced by an acceptance that this may rather take years.

"I believe people are getting more frustrated about a fruitless outcome to the peace process," commented Badwan Abu Ayyash, a prominent pro-Fatah figure and head of the Arab Journalists Association...

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OVERSEAS NEWS

Kalashnikov rule maintains the ethnic divide in southern Pakistan

Tensions are reaching an explosive level in Sindh province, where more people have guns than water and sewage, writes **Christina Lamb**

ON a balmy autumn evening one year ago, men of the southern Pakistani town of Hyderabad were going out for prayers. A shot rang out and the lights went off.

Hooded gunmen appeared from nowhere on rooftops and motorbikes, and by dawn 200 people had been massacred and the streets were running with blood. Last Sunday in a chilling repeat, masked gunmen entered several schools and at gunpoint forced headmasters to close them. A gunbattle ensued in which nine were killed and troops once more called out.

The hot congested cities of Hyderabad and Karachi in the seething province of Sindh, are used to such incidents.

An explosive mix of which around 10 per cent are Pathans from the frontier, 10 per cent Punjabis, 50 per cent mohajirs (immigrants from India) and the rest Sindhis who feel they are deliberately being made a minority in their own province, the battle for scarce economic resources has assumed ethnic overtones.

Frequently under curfew, the night of the Kalashnikov, regime supreme, ethnic warlords and notorious drug-baron running organised gangs under the noses of an apparently helpless overburdened administration. Since November 1987 more than 1,000 people have been killed.



Pakistani Prime Minister Benazir Bhutto (left) is thought to be the only person capable of controlling independence moves and violent ethnic unrest in Sindh province, which has claimed more than 1,000 lives since 1987.

Altaf Hussain (right), "uncrowned King of Karachi" and leader of the MQM party representing the minority mohajirs, voices resentment at the majority Sindhis, saying "mohajirs have no place else...we are treated as third grade citizens".



feudal politicians, "Altaf bhai" as he is known, cultivates his lower middle class image, proudly riding around on a Honda 50 and talking revolution.

The MQM bears a grudge. While their members are people whose parents left India, giving up everything because they did not want to be a deprived minority, Altaf says "today we are treated like third grade citizens". Their main grievance is the quota system. Mohajirs tend to be better educated so had a disproportionate 33 per cent of top civil service jobs until quotas introduced in 1974 began pushing them out. By 1983 they were down to 20 per cent. Altaf complains, "Karachi's population is 10 per cent of the country's total and it provides more than 63 per cent of federal revenue, yet we only get 2 per cent quota of jobs and many of those go to people from other areas not mohajirs who have no place else."

Organised in cells which collect "tees" from locals, MQM members call each other bhai (brother) and hero-worship Altaf Hussain, one of Pakistan's most charismatic politicians. In his dark shades with no official position, the former pharmacist has become a godfather, the uncrowned king of Karachi, whose office in the city's remotest northern reaches, is a far cry from the plush suburbs where other politicians live.

Hated by Sindh's traditional government complain their ministries are powerless while PPP ministers say they are being blackmailed by the MQM who threaten to abort the alliance in order to secure release of their prisoners, knowing that without the MQM the Bhutto government would almost certainly collapse.

Both sides have internal problems. Recent fighting was between factions of the MQM though they turned on Punjabis to cloak this. MQM hardliners in Hyderabad whose mayor has survived several Sindh assassination attempts, are eager to end the alliance as are Sindh nationalists within the PPP who feel Bhutto has conceded the cities to MQM.

Recent months have seen an upsurge in support for Sindh nationalist parties as the PPP has been unable to conjure up resources out of nothing. Areas such as Dadu, one of Pakistan's most deprived regions, which relies on once yearly rainfall to grow crops in subsoil, voted overwhelmingly for the PPP in November, unable to see how nationalist talk of a separate province could solve the problem of where the next meal was coming from. Today the feudal leaders of the many nationalist parties with their Hitlerian style propaganda, are attracting large crowds in villages bedecked with flags showing their black and white, and burning Pakistani flags.

controlling Sindh, and containing moves for independence reminiscent of those leading to the breakup of Pakistan and creation of Bangladesh in 1971.

The same people are now shaking their heads. In December the army was removed - democracy was going to cure all the ills. But now they are back, not just at Karachi university. The Racecourse and sports ground double as army camps.

The total number of killings may have decreased but the ethnic gap seems to have widened. Gunfights usually over trivial events but assuming ethnic overtones, are daily events.

As Iqbal Haider, Adviser to the Sindh Chief Minister, admits, "the seeds of ethnic

violence are easier to sow than uproot". In what many interpreted as a warning, last week General Aslam Beg, the army chief, told press there had been pressure on him for the army to intervene in Sindh, and said, "we could restore complete peace within days but that would have far-reaching consequences of a different nature".

Although Ms Bhutto's People's Party (PPP), which the largest in the elections, in order to secure a majority in the national assembly she had to enter into an alliance with the Mohajir Qaumi Movement (MQM), which had won 14 vital seats in urban Sindh.

A party for mohajirs, the MQM was thought by many to have been created by late President Zia, to exploit ethnic ten-

sion in a divide and rule tactic to justify continued army rule. Arising out of a student group in Karachi university almost overnight with a mass rally in August 1986, the MQM swept local body elections the following year in urban Sindh.

Until then ethnic strife was three cornered, between Sindhis and Pathans who had moved in to control drugs and transport, and Punjabis who, making up 62 per cent of Pakistan's population, dominated the army and bureaucracy and got lucrative plots and postings in Karachi.

With the sudden emergence of a militant MQM taking over the local administration and demanding a fifth nationality, the focus changed while the flow of sophisticated arms

Pakistani leader calls for end to Kabul aid

PAKISTANI President Ghulam Ishaq Khan yesterday told his frontier militia that the Soviet Union's support of the Communist Government of Afghanistan was the main obstacle to ending that country's civil war, AP reports from Peshawar.

He said Pakistan still believed that Moslem rebels, armed chiefly by the US, were the only ones capable of heading a popular Islamic regime in Kabul.

"If the Soviet Union genuinely wishes to help a political settlement, it must review its present policy which is in defiance of the clear wishes of the Afghan people," he told the militia.

Seven of the most powerful Afghan guerrilla groups, headquartered in Pakistan, have formed their own self-declared interim government, which

aims to replace President Najib's ruling People's Democratic Party of Afghanistan.

"We believe that the mujahedeen will ultimately succeed in the restoration of Afghanistan's independent, non-aligned and Islamic status," Ishaq Khan said.

In 1979, Soviet forces intervened to replace one pro-Moscow government with another in Kabul, then stayed on help fight the mujahideen.

The Red Army completed its withdrawal from Afghanistan last February. But the rebels have been unable to topple the Government, which continues to receive Soviet aid.

Some 3.5m Afghans remain in refugee camps along the Pakistan frontier, unwilling to venture home because of the continued fighting.

Sri Lanka family killed

TWO fathers and their two children, a boy and a girl, were shot dead in Sri Lanka in the latest round of political violence, Reuter reports from Colombo.

A government statement said they were among 24 people killed since Sunday. The men and children were shot by unidentified men in police uniform in the south of the country. The statement gave no further details.

It said troops in the past 24 hours also seized a large quantity of guns, swords, ammuni-

tion and army uniforms in raids on rebel hideouts. Thirteen rebels were killed.

The recent spate of violence has been attributed to the left-wing guerrillas and pro-government death squads.

The guerrillas of the People's Liberation Front launched a six-day ceasefire called by the government ending last week and continued killing and destroying state property.

The statement said rebels set fire to a rubber factory, post office and several state vehicles in the past day.

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AMERICAN NEWS

Fed unease surfaces with US Treasury policy

By Peter Riddell, US Editor, in Washington

TENSION has increasingly developed between the Federal Reserve and the US Treasury over a wide range of economic policy issues including foreign exchange market intervention, interest rates and the Third World debt strategy.

This has been reflected in friction between leading officials on both sides, as was noted by ministers and bankers during the annual meetings of the International Monetary Fund and World Bank two weeks ago. Bear, Stearns, the Wall Street investment advisers, said recently that "the Treasury and the Federal Reserve are at war" in relation to interest rates and the dollar.

The divisions surfaced publicly at the weekend when the minutes of the Federal Open Market Committee showed that two key Fed governors - Mr Mammel Johnson, the vice-chairman, and Mr Wayne Angell - dissented from an increase in the limits for the Fed's currency holdings. This was because of their opposition to intervention in the market "to drive the dollar lower as compared with intervention to avoid disorderly conditions by stabilising or limiting increases in the dollar exchange rate".

The two governors argued that "intervention of the former type confuses market participants concerning the policy commitment towards price level stability and can contribute to disorderly markets."

This public expression of dissent is significant, not least because Mr Johnson is usually regarded as a close ally of the Treasury on economic policy.

Moreover, although the two governors were outvoted, their views reflect broader doubts within the Fed, shared by the majority, about the efficacy of large-scale intervention.

The Fed has resisted Treasury calls for lower US interest rates as a means of bringing down the dollar. The predominant Fed view has been that interest-rate policy should be used primarily in relation to domestic conditions, notably curbing inflation. In practical terms, however, the latest evidence of an easing of labour market conditions may lead to lower US rates before long.

Another growing cause of tension has been over the Third World debt plan launched in mid-March by Mr Nicholas Brady, the Treasury Secretary. The Fed had doubts then about its feasibility and, while it has been closely involved with Mexican debt



Brady: Fed doubts about debt plan

negotiations, its officials have shared some of the reservations expressed by the commercial banks about the prospects for new loans.

These differences have become tied in with a growing debate in Congress about the powers of the Fed. Moreover, President Bush shortly has to decide how to fill the vacancy left by the resignation from the board of Mr Robert Heller.

Hyper-inflation joins race for Brazil polls

Analysts study Weimar republic and talk of political disaster, writes Ivo Dawnay

AS Brazil's 22 presidential candidates race towards their appointment with the ballot box on November 15, a growing fear among economists is that hyper-inflation may beat them to it.

Last month, price rises reached a record 38 per cent. There are forecasts of more than 40 per cent for October and few will take bets that the graphs will not go into the vertical before the second round of the two-phase poll on December 17.

Despite government assurances that foreign exchange reserves are adequate and tough monetary controls are in force, both government and business know that any sharp rise in inflationary expectations could provide the fuel for a disaster.

Already this month, three minor panics in the markets have seen gold and the black dollar return to record highs as nervous investors have ignored real monthly interest rates on government paper of up to 6 per cent and moved into internationally convertible assets.

After a bank holiday weekend, all eyes today will be focused on the weekly auction of the main paper - the *Letra Financeira do Tesouro* - which closed last Friday at an unimpressive 62 per cent a year. Once again last week, Mr

Mallouf da Nobrega, Brazil's finance minister, attempted to stem the tide of price rises by appealing to industry to hold down charges. In a series of meetings with leading industrialists, he hammered out a deal by which key sectors will hold down increases to 15 per cent below last month's inflation rate.

Moreover, in the manner of a Levantine despot killing the bearer of unpleasant tidings, he closed the gold futures market, blaming speculators for the 20 per cent rise in prices.

Last month, a conference of the great and good gathered in Rio to discuss the first publication in Portuguese of Brechtian-Turroni's *The Economics of Inflation* - the classic study of events leading to the collapse of confidence in Germany's Weimar Republic in June 1923.

Its conclusions were far from encouraging. Economists from Professor Celso Pastore, the monetarist former central bank governor on the right, to deputy Cesar Maia of the left-wing populist Democratic Workers Party agreed that, indeed, it could happen in Brazil.

Dr Paulo Guedes, a champion of orthodox fiscal measures, pointed out that, as in 1920s Germany, the conjunction of government deficits, the monetarisation of debt and the inability of the authorities to raise tax revenues are all in



De Mello: economic orthodoxy would be forced on him

place.

"It is inexorable," he concluded. "If we don't act with force and determination as well as the right measures, hyper-inflation is inevitable."

But while the platform could unite around a programme to cut the public sector deficit - currently expected to exceed 6 per cent of gross domestic product - there was equally uniform scepticism as to the capacity of Brazil's leaders to take the measures necessary to avert a collapse.

In 1920s Germany, the government took authoritarian

power through decree legislation and an autonomous central bank. In contemporary Brazil, the new constitution gives Congress formidable blocking powers and ensures a host of costly privileges from subsidies and tax breaks to guaranteed employment for civil servants.

Mr Walder de Góes, the sole political scientist at the seminar, warned: "Without a stronger president, Congress will continue to be too weak to take action, but still strong enough to prevent it."

His gloomy conclusion, widely shared, was that only with the advent of hyper-inflation will the political impetus build up to tackle the entrenched interests whose dogged defence of their rights has rendered President José Sarney's regime powerless.

"It is better that it comes quickly, because it is only then that a new climate of expectations can emerge," he said.

Not too quickly, however. Many are counting on prices being held down enough to allow the presidential elections to be concluded in December. That would clear the political decks to allow an accelerated transition like that of Argentina's where President Raúl Alfonsín handed over power early to Mr Carlos Menem.

Few now believe that the Sarney government will be

able to struggle on to the official inauguration date of his successor on March 15.

It is not clear, however, whether an early economic collapse would favour the left or the right. Mr Fernando Collor de Mello, a young state governor of relatively liberal economic views, remains 30 points ahead of Mr Leonal Brizola - a populist socialist still oriented to a command economy model.

Most appear to believe, however, that the options will be limited. Mr Sarney's heir will be forced, like Mr Menem, to adopt tough economic orthodoxy. But as the election moves towards its final month, many media commentators have hit out at the candidates for failing to communicate the fragility of Brazil's economic position or their plans for tackling it.

It is commonly claimed that many hopefuls are entirely unaware that the country is on a precipice. That may be unfair. Like anywhere else, Brazilian politicians prefer not to sell an increasingly angry electorate a package of blood, sweat, toil and tears.

Amongst the candidates at least, hope is the preferred prescription. After all, as deputy Cesar Maia put it with classic political defiance: "In Brazil, a pessimist is merely to be a well-informed optimist."

Argentina paves way for foreign investment

By Gary Mead in Buenos Aires

MR Nestor Rapanelli, Argentina's Economy Minister, yesterday signed two decrees which take the country's gradual opening-up to foreign capital one step further.

One will remove the complicated set of regulations concerning foreign investment, replacing it with a system of complete freedom for foreign capital to buy or create businesses in Argentina without prior government approval. One condition is that any such new foreign investment should be real and not simply a movement of paper. New foreign investments will require Economy Ministry approval.

However, certain areas, such as the media, are to be excluded from the new openness to foreign investors.

The other decree concerns the highly controversial

"Compre Nacional" law, which has been used by domestic industry as a means of blocking overseas competition. The "buy Argentine" law, a form of tariff against foreign imports, is to be suspended. In principle, that should mean greater competition for domestic producers from foreign companies.

A main element of President Carlos Menem's economic plans, a new and simplified tax system, has yet to be unveiled. It is thought that it might be announced this week after last-minute adjustments in consultation with the International Monetary Fund.

At the weekend Mr Rapanelli said the current price agreement with industry was to be extended to March 1990, the month he singled out as crucial for the re-negotiation of Argentina's foreign debt.

Panama braced for further crackdown

By Tim Coone in Panama City

SIXTEEN emergency measures will be decreed in Panama this week following the failure of last week's US-backed coup attempt to remove the country's military leader General Manuel Antonio Noriega.

Panama's tightly-muzzled media will face further restrictions, there will be regulations to control the movement of vehicles and foreign residents, and visitors will have to comply with new immigration requirements. Public employees and the armed forces will be subject to new codes of conduct designed to enforce loyalty to the Government.

Up to 20 per cent of the public sector workforce is expected to be dismissed in the coming

purge. The new regulations, expected to be announced tomorrow, will abrogate employment protection guarantees for public sector employees in the existing labour code, and permit the suspension or dismissal of those not expressing "loyalty and patriotism", according to Manuel Dagua, president of the ruling Revolutionary Democratic Party.

The crackdown provides a smokescreen, however, for a previously-planned economy drive to cut the government wage bill. US economic sanctions imposed over the past 20 months have disrupted government finances, reducing tax and royalties income by up to 50 per cent.

Noriega issue fails to hit Bush's popularity

By Peter Riddell

PRESIDENT George Bush's attempt to force the failed coup attempt against General Manuel Noriega of Panama is generally backed by the American public, though the failure to order US military intervention has been sharply criticised by conservative Republicans.

An opinion poll taken at the end of last week by Gallup for Newsweek magazine shows that 45 per cent of those interviewed thought that US policy was just about right, against 9 per cent who believed the US had played too much of a role and 30 per cent who thought the role insufficient.

The same poll shows that only 26 per cent support the use of US military forces to invade Panama and overthrow Noriega.

By comparison some 79 per cent believe the US should persuade other nations in the region to pressure Gen Noriega to surrender power, while 54 per cent favour the imposition of a total US economic boycott and 46 per cent want a secret operation set up to unseat Gen Noriega.

The US is now likely to pursue a combination of these policies. Mr James Baker, the Secretary of State, has been careful not to rule out the use of force but he has stressed the US commitment to continued diplomatic pressure and economic sanctions, which are being reviewed.

Conservatives, including several prominent Congressmen, have generally been hostile to the President's failure to order a military intervention. The Wall Street Journal reflected this strand of thinking in heading an editorial yesterday "Another Bay of Pigs" in reference to the failed invasion of Cuba in 1961 under President Kennedy. The newspaper talked of "a study in American indecisiveness and irresolution".

However, the majority reaction of politicians, such as Democratic leaders Senator George Mitchell and Speaker Tom Foley, and of the public is less strong. It is essentially that an opportunity may have been wasted as a result of hesitancy and caution but the position was never clear-cut because of confusing reports at the time.

Nevertheless, the episode may have some limited impact on Mr Bush's previously high standing and largely trouble-free record, especially as a series of revelations during the past week have exposed weaknesses in the gathering of intelligence and in White House decision-making.

Apart from the specific shortcomings needing to be remedied, there have, for the first time in this Administration, been a number of criticisms between the President's senior foreign policy advisers.

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WORLD TRADE NEWS

US and Brazil end computer export row

By Nancy Dunne in Washington

THE US and Brazil have ended a bitter four-year dispute over Brazil's treatment of foreign computer and electronic exports...

EC dumping policy 'impairs competition'

By Guy de Jonquieres, International Business Editor

THE European Community's anti-dumping policy is a protectionist device which impairs competition in Europe and flouts the intention of world trade rules...

US, Canada accused over rise in textile-curb pacts

THE US and Canada were pilloried yesterday for increasing import curbing agreements on foreign makers of textiles and clothing...

Textiles performance was more than matched by US clothing makers who followed a 1987 increase of 31 per cent with a further 36 per cent climb last year...

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Japan helps Moscow open up its wild east

Sporadic successes are being made in a joint venture policy, writes Stefan Wagstyl

THE MAIN claim to fame of the 10-room state guest house in Khabarovsk, a provincial capital in the far east of the Soviet Union...

time in the past year - a sign of the steady warming of relations between two countries which do not have any diplomatic ties...



bring foreign money pouring into the far east. The sparse population of the huge region which is home to just 7m people...

bring foreign money pouring into the far east. The sparse population of the huge region which is home to just 7m people...

Mitsui pays Y120bn to quit Bandar Khomeini

By Robert Thomson in Tokyo

THE Iranian Government has formally permitted the Mitsui group of Japan to withdraw from the ill-fated Bandar Khomeini petrochemical plant joint venture...

Saab wing order goes to Spain

By Robert Thomson in London

Casa, the Spanish aerospace manufacturer, has been chosen by the Saab Aircraft division of the Swedish Saab-Scania group...

Hitch in clearing Gulf war wrecks

By Hunter Reynolds in Dubai

OVER a year after the ceasefire in the Gulf war, the political stalemate between Iraq and Iran is delaying urgent work needed to clear the area of shipping wrecks...

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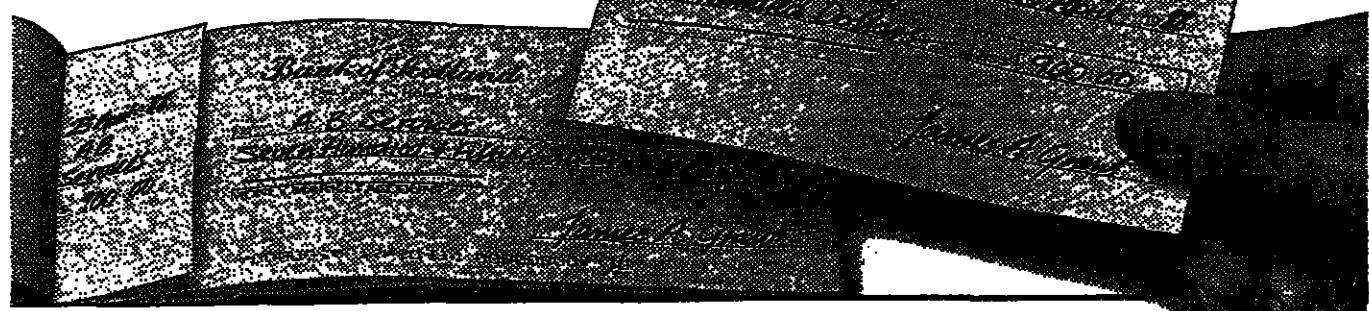
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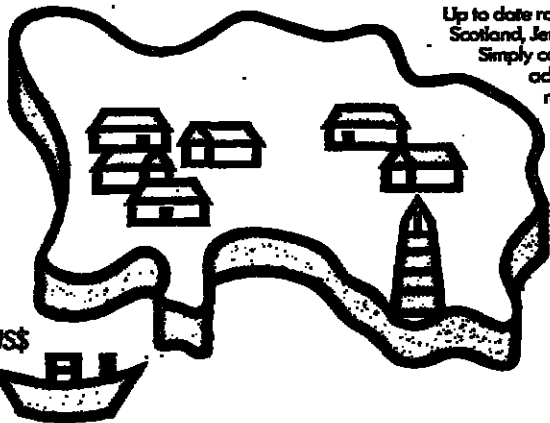
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NORDIC CONFERENCE

Sweden promises new rules to open doors for foreign banking

Robert Taylor reports from Stockholm

THE SWEDISH government will introduce legislation shortly to enable foreign banks to set up branches in Sweden, the country's finance minister Mr Kjell-Olof Feldt promised at yesterday's Financial Times conference on Europe and the Nordic countries in Stockholm.

He said this was one of a number of Government bills designed to liberalise the financial sector in the aftermath of Sweden's abolition of foreign exchange controls in July. Mr Feldt promised that foreign banks would be "offered equal opportunities to compete with Swedish banks" as a result of the new legislation. He added that the establishment of branches would require the Government's permission and they would be supervised jointly by the Swedish Bank Inspection Board and home country authorities "in accordance with generally accepted international recommendations on prudential supervisions."

Mr Feldt made it clear that foreign bank undertakings in Sweden would be covered by existing Swedish bank legislation, including restrictions that govern the acquisition of shares in non-banking enterprises. "Foreign banks with branch permission shall be enabled to conduct stock brokerage," he added. "No special endowment capital shall be required for the business through Swedish branches. The operations carried out through branches shall rely on the foreign banks' capital base."

Sweden's finance minister said his country wanted to discuss with the European Community "intensified co-operation in all sectors except foreign and security policy". He added that Swedish neutrality was a "key factor in a wider European security policy pattern". It was a "policy of choice and a product of the situation in Europe at any given moment as interpreted by the Swedish government".

"Our aim is the fullest possible participation in the four freedoms of the internal market. What we wish to achieve is that Swedish citizens, Swedish goods and services, Swedish enterprises are not to be discriminated against in any way in relation to their EC



Mr Kjell-Olof Feldt: opening doors for foreign banks.

counterparts," Mr Feldt said. He was "confident" that December's joint meeting between the EC and European Free Trade Association members would give the "formal go-ahead" to detailed negotiations between the two economic blocs early in 1990 with the aim of creating a "more structured partnership with common decision-making and administrative institutions".

In his speech to the conference the Speaker of the Finnish Parliament and four times Finnish prime minister Mr Kalevi Sorsa said that Finland took an "optimistic" view of working through Efta for an integrated Europe. "It makes no sense at all to disrupt a natural process by failing to build on the free trade relationship which services both Efta countries and the EC so well," he added.

Mr Sorsa said he believed that the efforts to create a "third road" between the present Efta-EC relationship and full EC membership would "eventually succeed", involving free movement of goods, services, capital and people as well as close association on economic, environmental, research and development and education policies.

Mr Sorsa acknowledged this would involve "building a legal framework for all this and the setting up of institutions for decision-making and for allowing the Efta countries to participate in the EC's legislative process". He said his "optimistic vision was founded in reality" but he also added that "EC membership for Finland was not compatible with its policy of neutrality". He said he believed the EC's social dimension would have to be strengthened to assist in bringing Efta and the EC together but he was convinced a "new multilateral framework between the two blocs was realisable." He concluded that Efta countries needed "to stick together and not individually make our way to Brussels and other centres of power."

Mrs Eldrid Nordbo, state secretary in the office of Norway's prime minister Mrs Gro Harlem Brundtland told the conference that her government, which looks set to leave office early next week, was strongly in favour of creating new structures covering the EC and Efta, including the surveillance and enforcement of the rules and regulations agreed by both

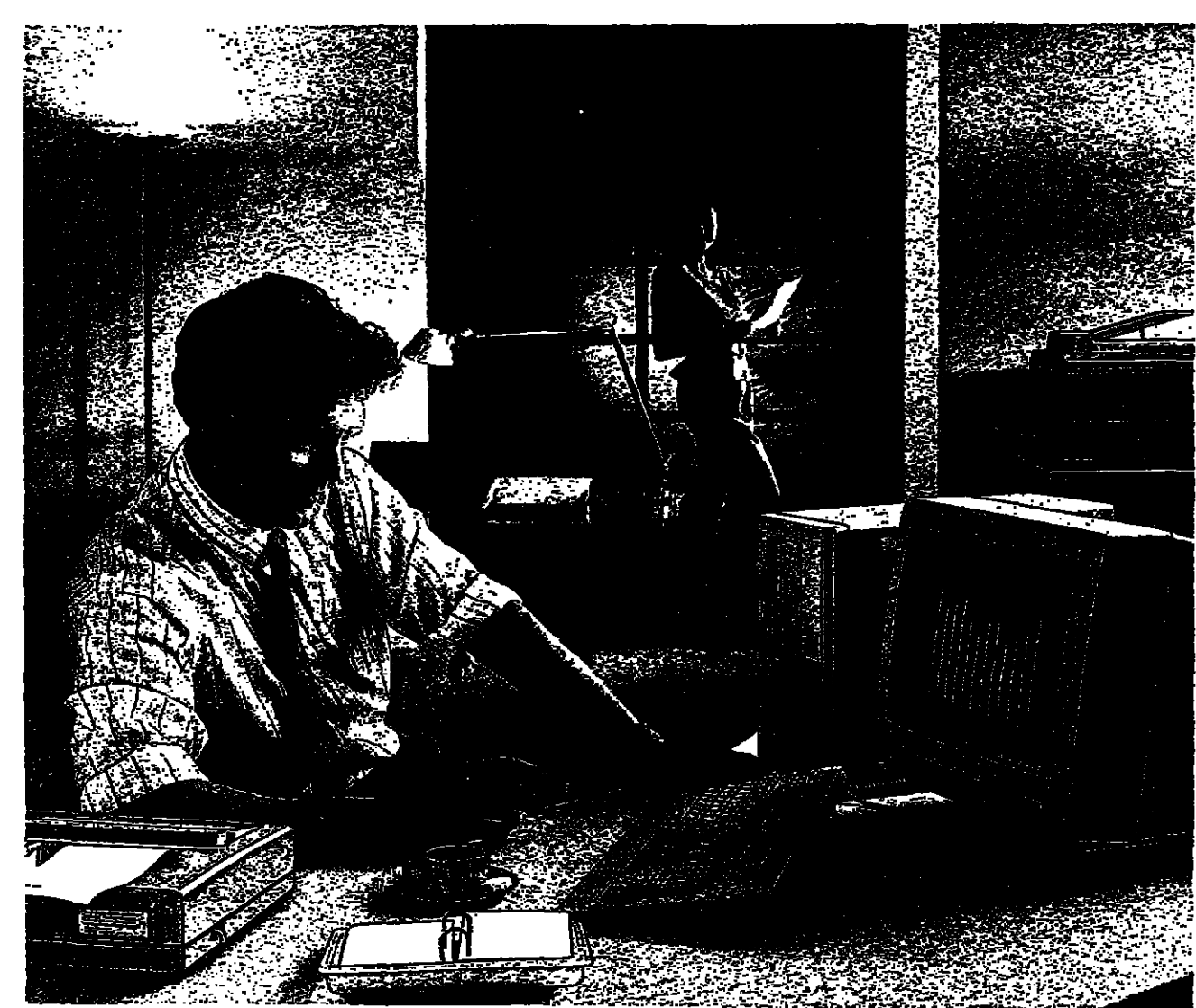
sides. She believed there would have to be a joint EC-Efta court system based on the existing EC court of justice.

She said that the present Norwegian government was keeping its options open on whether there should be a customs union between Efta and the EC "or a broadening of the existing free trade agreements". Mrs Nordbo said Norway's foreign and security policy interests made it important that the country played "an active part in the ongoing integration process." She added that "our political interests require we are at the forefront of economic and trade co-operation in western Europe."

Mr Thorstein Ohlsson, economic adviser to Iceland's prime minister said that his country welcomed closer integration with the EC through Efta but he stressed that Iceland needed duty free access for processed fish products in the European market. He added that Iceland was "not in a position to give any fishing rights away to the EC and as a matter of political principle, agreed by all the political parties in Iceland, it would never be accepted to negotiate fishing rights in Icelandic waters for other nations."

The managing director and chief executive of the Gothenburg group at Skandinaviska Enskilda Banken, Mr Bo Ramfors called for the abolition of Sweden's turn-over tax, which he said had led to the trading in Swedish securities on foreign stock exchanges on a growing scale. But he also said that the Nordic banks and financial institutions were well equipped to meet increased competition, adding that a common Nordic stock-exchange information system starting next year would pave the way to the development of a Nordic stock market.

Mr Harald Norvik, president and chairman of Statoil in Norway said that the growth of the EC's internal market meant that the EC's political institutions would decide upon important issues for the future marketing of Norway's petroleum products and therefore, whether or not his country became an EC member, it "should take an active part in those discussions".



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GATEWAY AMERICA

UK NEWS

Government says it will not 'shirk responsibilities' as sterling falls and building society raises loan rate

Unexpected rise in manufacturing costs

By Patrick Harverson, Economics Staff

Chancellor faces most difficult test in office

By Philip Stephens, Political Editor

GOVERNMENT ministers publicly closed ranks yesterday behind Mr Nigel Lawson, the Chancellor of the Exchequer, as sterling's sharp fall on foreign exchange markets and the rise in mortgage rates deepened the unease among Conservative supporters on the eve of today's annual party conference.

As Mr Lawson arrived in Blackpool for the conference last night, facing what colleagues described as the most difficult period of his Chancellorship, senior ministers privately acknowledged serious concern about the possibility of a further rise in interest rates.

In public statements, however, they took their lead from Mr Kenneth Baker, the party chairman, in predicting that the Government would soon regain its grip on the economy.

Mr John Wakeham, the Energy Secretary, echoed the general sentiments when he said that the Government knew the immediate outlook would be difficult but it would not shirk its responsibilities.

Mr Baker reaffirmed that the Government's prime objective remained the defeat of inflation, but he would not be drawn on events in financial markets yesterday. He insisted that with a general election still possibly more than two years away, the Conservatives had time to bring down inflation and interest rates and to recover their popularity.

Mrs Margaret Thatcher, the Prime Minister, offered a similarly upbeat message to a gathering of party agents last night. She said the latest rise in interest rates was necessary and had to be seen in the context of the underlying strength of the economy.

"This Government always does exactly what is necessary," she said, adding: "You have to look at the current situation in the light of the Government's record and the underlying strength of the economy."

Her aides cast doubt on any suggestion that the pound's

weakness will prompt her to accept the advice of many city of London economists and reconsider her long-standing opposition to full British membership of the European Monetary System.

One middle-ranking Government minister summed up the general mood in Blackpool on the eve of the conference with the comment that: "When things get this dire I think you will find that we (the Conservatives) will pull together."

Others acknowledged, however, that if sterling continues to slide and forces another rise in interest rates, the Government could be faced with a serious outbreak of discontent among its supporters. "We just hope it does not happen," one minister commented.

Mr Baker said that Mr Lawson would use his speech to the Conference on Thursday to defend the Government's record on the economy in "a very positive way". He would point out that the Government had presided over an unprecedented period of economic growth and falling unemployment and that, despite present difficulties, investment was still rising strongly.

At the same time party managers were playing down weekend reports of differences between Mr Lawson and Mrs Thatcher's principal economic adviser, Sir Alan Walters. They insisted that there had been full agreement last week on the need to raise interest rates.

Mr Roy Hattersley, the opposition Labour party's deputy leader, said Mr Baker should use his speech today to help restore international confidence in the British economy.

"It is clear that the international markets are no longer prepared to accept the Chancellor's complacent assertion that our mounting trade deficit is of no real significance."

"Mr Baker must therefore give us some sign that the Tory Government recognises their errors and will respond to the consequent loss of international confidence," he said.

Halifax raises mortgage rates to 14.5%

By David Barchard

HALIFAX, the largest UK building society, yesterday raised mortgage interest rates to 14.5 per cent from 13.5 per cent - the highest ever real rate to borrowers in UK history.

The increase will take effect for its 1.6m existing borrowers from November 1. When expressed as an APR (annual percentage rate), the Halifax will charge 15.7 per cent on endowment mortgages and 15.8 per cent on repayment mortgages.

Other building societies, which in the UK are savings institutions specialising in home loans, are poised to move their rates in the next few days.

Though Nationwide Anglia, the second largest building society, looks likely to keep its increase to one percentage point, in line with Halifax, some other societies may put their rates up higher.

Building societies have been holding their rate to borrowers at half a percentage point below the banks' base rate since the end of May, and

many smaller societies would like a rise of 1.25 to 1.50 percentage points.

Yorkshire, the twelfth largest society, moved ahead of the rest of the market at the weekend, taking its rate to 15 per cent.

Mr David Anderson, general manager for marketing, said yesterday: "15 per cent is the lowest rate we could go to and still expect to keep our investors satisfied."

Halifax stressed that the new rate will be the highest ever real rate to borrowers in

UK history because when the bank interest rates were last this high in the early 1980s, income tax relief on interest payments on mortgage debt helped offset the burden.

Since then Miras (mortgage interest relief at source) has been held at 230,000, while the average size of loans in SE England has risen to 258,000.

The change means that in real terms the first time buyers will be paying interest at 2.5 per cent more than in 1984.

Lex, Page 20

AA cuts holiday sales after interest rate rise

By David Churchill, Leisure Industries Correspondent

THE Automobile Association yesterday became the first company in the travel industry to respond to the unprecedented slump in package holiday bookings for next year by axing sales of overseas air-charter package holidays.

The move means the loss of up to 500 jobs in the AA's retail travel operations at 69 travel centres throughout the UK.

The AA's decision follows the 10 per cent volume slump in package holiday sales this summer and a fall of 50 per cent in the level of bookings for next summer in comparison with this time last year.

The travel trade blames the rise in interest rates over the past year for leading to the fall in demand for package holidays, although bad publicity about low hotel standards and airport delays has also harmed sales.

However, last week's rise in interest rates was the final blow for the AA. Mr Andrew Johnson, general manager of AA Travel, said: "It frankly became pointless to continue to compete in the overcrowded, heavily discounted and ultimately unprofitable air-package holiday business."

He added: "We have taken a painful but necessary step."

AA Travel is the ninth largest travel agency chain in the UK with a total of 88 outlets.

There are over 7,000 travel agents in the UK but the top five chains - Lunn Poly, Thomas Cook, Pickfords, Hogg Robinson, and A T Mays - account for a quarter of the total number of outlets and about half the 10m package holidays sold this year.

The fall in sales, however, has led to most travel agency chains being forced to sell holidays at up to £100 in order to attract holidaymakers. This has severely hit profit margins

and there is speculation in the travel trade of other chains scaling back their operations or merging.

The 500 jobs to be lost at the AA Travel centres include some 400 as a direct result of the decision to stop selling package holidays, with a further 100 as a result of restructuring the AA's other retail activities.

However, the AA travel centres will still continue to sell non-package holiday travel services, such as ferry bookings and travel insurance, along with its existing motoring facilities.

A LARGER than expected rise in manufacturing industry's fuel and raw material costs last month pointed towards a squeeze on company profit margins in the coming year.

The Central Statistical Office said that after allowing for normal seasonal variations manufacturing industry's input prices rose 1 per cent in September, to take the rise on the year to 5.3 per cent.

The City of London's financial institutions had been expecting a monthly rise of 0.3 per cent in input prices.

The CSO said that industry's factory gate prices of manufactured goods, known as output prices, rose by a seasonally adjusted 0.4 per cent. This was in line with City of London forecasts, and factory gate prices are now rising at an annual rate of 5 per cent.

The rise in manufacturing prices was attributed to the weakness of sterling against the dollar, which put up the cost of oil and general commodities. The CSO said that a significant proportion of the rise was due to higher prices for food manufacturing materials.

City of London analysts said that yesterday's figures emphasised how important a strong pound was to the fight against inflation.

Mr Nigel Lawson, the Chancellor of the Exchequer, had hoped that last week's rise in UK interest rates to 15 per cent would support the pound and ease imported inflationary pressures.

However, the one point rise in interest rates and repeated intervention in recent days by the Bank of England in the foreign exchange markets has failed to stop sterling's slide against the dollar and the D-Mark.

Analysts expect manufacturers' costs to rise further in coming months if the pound remains weak against leading currencies.

Mr Kevin Gardiner, economist with Warburg Securities, said that industry's profit margins will be squeezed next year if input prices continue to rise at the current rate.

Wage costs are forecast to rise by more than 5 per cent this year, and with company earnings already showing signs of slowing, profit margins will be eroded.

Mr Gardiner said that there was little room for companies to pass on the higher manufacturing costs to the consumer in the form of higher retail prices.

Aggregate demand is already weakening under the pressure of the rise in borrowing costs, and companies are likely to be reluctant to raise shop prices for fear of losing market share.

Lawson decides to ride out accident waiting to happen

Simon Holberton and Patrick Harverson look at sterling's fall

MR Nigel Lawson, the Chancellor of the Exchequer, probably thought he had taken the decisive - if unpopular - step last week when he raised base rates to 15 per cent. Yesterday, on the eve of the Conservative party's annual conference, with the pound being savaged by the foreign exchange markets, he may well have asked himself what he has to do to prop up sterling.

Last week's rise in interest rates was about preserving sterling's strength and bearing down on still excessive demand in the UK economy. But by yesterday morning, the foreign exchange markets had calculated that Mr Lawson would not want to risk throwing the economy into almost certain recession by pushing interest rates higher. He seems to have decided to ride out the latest storm.

As Mr John Sheppard, economist at Warburg Securities, said, even higher rates were not seen as an option, not only for political reasons, with the Tory Party conference in Blackpool this week, but also because "you cannot just continue to put interest rates up when they are not affecting the currency."

The fall in sterling was an accident waiting to happen. Traders and analysts have felt for some months that the pound was overvalued and would fall.

Two possibilities were discussed. One was that the pound would fall when the economy cooled sufficiently for the Treasury to cut interest rates to stimulate growth. The other was that the market would see the top of the interest rate cycle and simply dump the pound, hoping to make money as it fell.

Yesterday the latter occurred, accompanied by that now familiar talk of the pound being a "one way bet." A banet of foreign exchange trading is: if you can't buy it, sell it.

Weekend press reports of a rift between Mr Nigel Lawson, and Sir Alan Walters, the Prime Minister's economic adviser, reinforced the feeling of many in the foreign exchange markets yesterday morning that the Government would not stop the pound from falling below DM3.

by the Labour Party's lead in the opinion polls. Although the election is still some way off, traders gambled that the Government would not countenance another rise in interest rates while it lagged so far behind Labour in the polls.

In any event, currency strategists did not believe another rate rise would help the pound. Mr Ken de la Salle, head of foreign exchange at NatWest, said: "One more point on interest rates would not turn sterling." Only organised intervention in the markets by world central banks would help the pound.

Another worry was that 15 per cent interest rates might push the economy into recession. The economic fundamentals are running against the pound. In particular, the market is worried about the trade deficit, and it has not taken to Mr Lawson's line that privately financed trade deficits do not matter.

"No one liked Lawson's Nervo act after the last trade figures came out. His peddling of the idea that the deficit does not matter smacked of complacency," reckoned one currency analyst.

The coherence of policy on the pound and interest rates was also being questioned. As one analyst put it: "Last year the Bank of England tried to stop sterling as it went up through DM3 and had interest rates down at 7.5 per cent. Now the Bank is trying to stop the pound going down below DM3 and interest rates are at 15 per cent. That's a hell of a change of policy."

But there was also a growing sense in financial markets that the Treasury had abandoned its flirtation with exchange rate targeting, or at least put it on hold for the time being.

The Bank of England's intervention yesterday was not an attempt to stop the pound falling through DM3 but to maintain a semblance of order in the market and indicate that the Government still took an interest in the level of the currency.

Mr Derek Scott, UK economist at BZW, said: "There are some in the market who think that authorities have in some sense let the pound go. It is only a matter of time before the market has another crack at the pound."

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Ward arrest in US stretches Guinness affair

By Raymond Hughes, Law Courts Correspondent

THE ARREST of Mr Tom Ward, the US lawyer and former Guinness director, and the start of proceedings in the US for his extradition to the UK, raises the prospect of the criminal trials in the Guinness affair stretching over the next three years.

A warrant for Mr Ward's arrest was issued in the UK as long ago as March last year. At that time it seemed possible that he would be seen in the dock alongside his co-defendants.

However, the 18-months delay between the issuing of the warrant by Bow Street magistrates and his arrest by FBI agents last week means that, always assuming extradition is granted, Mr Ward will find himself alone in an English dock long after verdicts are returned against the others involved.

Even if the Serious Fraud Office obtains an extradition order Mr Ward can be expected to fight the matter through the US appeals system, which could take at least two years.

The trial of Mr Ward's seven co-defendants is due to start at Southwark Crown Court on January 1.

The seven include Mr Ernest Saunders, former Guinness chairman and chief executive; Mr Gerald Ronson, chairman of the Heron Group; Sir Jack Lyons, the millionaire financier; and Mr Anthony Parnes, a former stockbroker.

The other three are City professionals who advised Mr Saunders and Guinness during the takeover battle for Distillers. Mr Roger Seelig, former Morgan Grenfell corporate finance director, Lord Spens, former director of corporate finance at the Henry Ansbacher merchant bank, and Mr David Mayhew, senior corporate finance partner of stockbrokers Cazenove & Co.

Mr Ward, a senior partner in the Washington law firm of Ward, Lasarus, Gow & Child, who is regarded as a key figure

in the Guinness affair, was arrested in connection with alleged offences under the UK Theft Act.

He is mentioned in four of the charges currently filed by other defendants. Two against Mr Saunders under the Theft Act concern a payment of \$5.2m made by Guinness to a Jersey company, Marketing & Acquisition Consultants.

In a third Sir Jack Lyons is accused of conspiring with Mr Ward to contravene the 1985 Companies Act.

In the fourth Mr Seelig and Mr Mayhew are accused of common law conspiracy with Mr Ward.

The \$5.2m is also the subject of a pending appeal by Mr Ward to the House of Lords against a Court of Appeal ruling that he must repay the money to Guinness without the dispute going to a full trial.

The appeal was to have been heard last July but was postponed and is now not expected to be heard until some time next year.

Upholding a High Court ruling in Guinness's favour, the appeal court judges said that Mr Ward had improperly received the \$5.2m "in plain disregard of his duty to the company".

The payment, alleged by Mr Ward to have been for his services to Guinness during its takeover bid for Distillers, was not disclosed to a meeting of the full Guinness board. It had therefore breached both the company's articles of association and the Companies Act, the appeal court said.

Mr Ward contends that the payment was properly made to him under a contract between him and Mr Saunders.

Mr Ward is the second of the Guinness defendants to face extradition proceedings. In November, 1987, proceedings were started against Mr Parnes, who had been arrested in Los Angeles. However, after six months in detention, Mr Parnes returned to the UK voluntarily.

UK NEWS

Arrested troops come to court

By Our Belfast Correspondent

FOUR MEMBERS of the Ulster Defence Regiment, the locally recruited British Army unit, appeared at Belfast Magistrates Court yesterday accused of firearms offences.

The court heard that the four were among 28 UDR soldiers arrested in a swoop by a total of 300 police officers in Belfast on Sunday. Some of the soldiers have since been released.

The police operation prompted criticism from the Rev Ian Paisley, leader of the Democratic Unionist Party, who called on Mr John Stevens, Deputy Chief Constable of Cambridgeshire, to stand

down as head of the inquiry into allegations of security force links to loyalist paramilitary organisations.

Mr Darryl Chessman, aged 29, was charged with possessing three rifle magazines under suspicious circumstances. Mr Leslie Wheeler, aged 24, Mr Robert Thompson, aged 25 and Mr William Casement, aged 31, are all accused of possessing bullets under suspicious circumstances.

A lawyer for the men said they would strenuously deny the charges. He said they were not associated and did not support any illegal organisations.

Mr Ken Maginnis, the Ulster

Unionist security spokesman and a former major in the UDR, said the arrests were "hamfisted" and "politically motivated."

Mr Paisley said he had no confidence in Mr Stevens after the handling of the dawn raid arrests of 28 UDR soldiers.

The UDR leader said the scale of the operation had endangered the soldiers' lives by identifying them as members of the regiment.

Meanwhile, a young Protestant workman was shot dead in Killyrea, County Londonderry, yesterday in an incident which police are treating as a sectarian killing.

Soldiers who patrol Ulster's firing line

A very, very, very brave body of men, is how Mrs Margaret Thatcher, Britain's Prime Minister, described the Ulster Defence Regiment during a flying visit to Northern Ireland last month, writes Kieran Cooke.

Scarcely had Mrs Thatcher left the province than Sinn Fein, the Irish Republican Army's political wing, staged a news conference at which it produced a list of the court appearances of the UDR. The list was more than 70 pages long. To date 130 UDR members have been convicted of serious offences, including 16 for murder.

Like almost any issue in Northern Ireland, there are very different views about the UDR, the locally recruited British army regiment which now finds itself at the centre of a political and military controversy.

At the weekend 28 members of the regiment were arrested and held for questioning in connection with the leaking of classified documents to the Irish Republican Army while a top level investigation continues into alleged collusion between the security forces and the IRA's enemies - the loyalist paramilitary organisations.

On one hand the regiment, the youngest and largest in the British army, is considered to be the essential workhorse of the province's security forces. Its members, evenly divided between full and part timers, handle more than 80 per cent of army duties in the troubled province.

The UDR is described as a dedicated and disciplined regiment. Recruited entirely within Northern Ireland, its members have a unique local knowledge and are essential in the fight against terrorism.

Yes, say the UDR's defenders, there have been miscreants within the regiment. But these have formed only a very small proportion of the more than 40,000 people who have passed through UDR ranks since the regiment first became operational back in early 1970.

The regiment welcomes applications from all sections of the community; the IRA has killed Roman Catholics who have joined and intimidated many others.

The other view, held by most in the nationalist community and shared to a large extent by the Irish Government, is that the existence of the UDR is one of the main obstacles to progress in Northern Ireland.

The UDR was formed to replace the old B Specials, the police special unit involved in some of the more bloody



Patrol: the UDR are the workhorse security force

events at the start of "The Troubles."

The Specials had been deeply feared across a wide section of the nationalist community. Yet now the UDR is almost equally feared by nationalists.

The UDR, say the regiment's critics, is a partisan force. It is overwhelmingly Protestant, with less than 4 per cent of its members Roman Catholics.

Those opposed to the UDR say the British army has trained and armed thousands of people from one side of the community.

This, the critics say, has made any settlement in Northern Ireland all the more difficult.

If the British army withdraws the UDR will presumably be left behind to preserve the status quo.

If conflict breaks out, the critics say it is clear which side the UDR would be on.

The UDR is a crucial element in the Government's "Ulsterisation" policy. This dates back to the mid 1970s when the Royal Ulster Constabulary, closely supported by the UDR, was put in charge of the main peacekeeping effort in the Northern Ireland.

To some this policy is similar to the "Vietnamisation" policy carried out by the US in the latter stages of the Vietnam war.

As numbers of British army troops based in Northern Ireland have gone down, from a peak in 1972 of 21,000 to a little over 9,000 now, so the numbers of UDR and RUC have risen.

Nationalists in Northern Ireland and the Government in Dublin have been very concerned about any expansion of the UDR's role into more sensitive "hard green" nationalist areas.

They have been particularly worried about recent statements made by Mr Peter Brooke, the Northern Ireland Secretary, that the UDR is to be issued with plastic bullets.

On the other hand loyalist politicians clearly feel that the continuing criticisms of the

UDR and the highly publicised arrests of UDR members carried out at the weekend, only give succour to the IRA.

Mr Ken Maginnis, the Ulster Unionist MP and himself a former major in the UDR, said that the weekend's events would "totally undermine morale and confidence" within the regiment.

The men and the 700 women in the UDR, called "Green Finches", have joined for a variety of reasons. Many are in the regiment because their fathers or brothers had also served or were in the old B Specials.

Others join for economic reasons. A full time soldier earns about £200 a month and jobs in Northern Ireland are scarce. Already there is some resentment within the UDR that its members are somehow looked on as second class soldiers.

The top echelon of the UDR is still made up of officers seconded from the British Army. The UDR has noticed that the death of one of its members causes little concern outside Northern Ireland.

As the IRA has also come to realise, deaths of British soldiers, particularly if they take place on the British mainland, have a far greater impact.

There is no doubting the UDR's soldier's bravery. While the regiment is becoming more professional and full time, part timers are still essential for operations. These would be farmers or milkmen, vulnerable to attack, particularly when off duty.

In the past 19 years 180 UDR members have been killed. In one now legendary case the IRA targeted a postman who was a part timer in the UDR. The IRA first took over an elderly woman's house. Then it posted her a parcel. When the postman made the delivery he was shot dead.

"These soldiers are not anti-Catholic but anti-IRA" said a recent UDR commander. Many in Northern Ireland would agree. But others clearly feel that the growth of the UDR has been a serious mistake.

County and Reuter to scotch dealing system

By Alan Cane

A MULTI-MILLION pound project to develop one of the world's most advanced dealing room information systems has been abandoned only months before it was due to go live.

County NatWest, the market making arm of National Westminster Bank, and Reuters, the financial information group, have agreed mutually to stop work on a computer-based information system which would have been the centrepiece of County NatWest's dealing room complex in its new City of London premises, Broadgate House, according to Dealing with Technology, a financial newsletter.

County and Reuters confirmed yesterday that they had agreed to discontinue the project because of Reuters inability to meet the bank's timetable.

The system, called Integrated Services Network and based on Reuters most advanced information distribution system Tritech 2000 would have used digital technology throughout. Reuters will instead install a simpler, video-based system, similar to the

one County NatWest already uses in its Drapers Gardens offices in the City.

The project, announced a year ago, is part of a \$12m package of letters of intent signed with Reuters and with British Telecom for computer and communication equipment for the new dealing rooms.

County NatWest was expected to invest about £1bn in new technology over five years to equip its equities operation. Overall, however, the project has shrunk from a total of 685 dealer positions to between 300 and 350.

Neither side was prepared yesterday to elaborate on the value of the Reuters contract or the amount that will have to be written off. It is understood, however, that the contract stipulated that in the event of Reuters failing to complete the ISN on time, it would instal the video system as an interim measure without charge.

Mr Colin Kaye, director of technology at County NatWest said that while the video system was not being installed free it was at a substantial discount to list price.

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UK NEWS

Bosch leads the march to the land in the West

Anthony Moreton looks at a raft of investment decisions bringing jobs to the principality

Three weeks ago the contractors moved onto a 200-acre site at Miskin, just outside Cardiff in South Wales, and laid the first foundations for the Bosch motor plant that will, by 1995, be turning out 5m alternators a year for the motor industry.

The frame of the building should be completed by January and Dr Helmut Oberitz, technical director of the West German company's automotive equipment division, said at the group's headquarters in Stuttgart last week, that exactly a year later the first of a new generation of compact alternators would start to come off the production line.

Since Bosch confirmed last April its decision, first revealed in the Financial Times, to build in Wales a raft of investment decisions for expansion or new investment.

STC has chosen Oswestry, outside Newport, for a R & D centre. Toyota is spending £10m on an engine plant at Deeside in North Wales, and Race Electronics is joining forces with Japan's Senken Electric to set up a plant in Aberdare, in the South Wales valleys.

This morning, Dow Corning is expected to add to this good news by announcing a multi-million pound project at its Barry works, also outside Cardiff.

Dr Oberitz sketched out a future in Wales for Bosch that offered the possibilities of expansion far beyond what the company now has in mind.

The DM300m investment should employ 570 employees by the time the plant is fully running in 1991, 400 of them on the production lines, and it is expected that expansion of output will take the number to 1,000 by 1995.

Bosch, however, has bought a far larger site than it needs at the moment, Dr Oberitz stated. "We shall be building two halls, each of about 120,000 sq ft, as well as offices and an energy supply centre for our immediate needs and we have taken enough space to build another four halls. Any expansion beyond our present commitment, though, will depend on the success of the present venture and the needs of the company."

The Welsh plant will make a compact alternator, promised to provide between 20 and 70 per cent more power than the present units, and will be the only source of this equipment within the company.

Three sizes of alternator will come off the lines: a small one, up to 60amps; a medium-size one up to 90amps; and a large one up to 140amps.

Cardiff was only chosen after a year-long search by Bosch into a large number of sites. Bosch's strategy has been to move its production nearer the client.

Although the company earns just over half its £4.7m income from outside Germany only 15 per cent of the income comes from goods produced beyond its borders. Getting nearer the end customer has therefore become a central tenet of its strategy.

Bosch concentrated its year-long search for a site for a new plant initially on low-wage, advanced-economy countries and the haul quickly came to a choice between Spain, where Bosch already has a number of plants, and the UK, where it has none.

Within the UK the close rapport developed between Mr Marcus Brierley, chief executive of Bosch and Mr Peter Walker, Secretary of State for Wales, played an important part in the decision to choose Cardiff rather than the alternative.

Growth within the British motor industry was also an important factor. The company expects present output of around 1.1m vehicles a year to grow to more than 2m.

But what really swung the decision towards Wales, according to Dr Oberitz, was the way in which decisions were reached in the shortest possible time.

"We had enormous co-operation in the paperwork from a number of bodies," he said, "especially from Welsh Development International. This enabled us to push ahead at

top speed. The co-operation we had on this side was crucial in our decision-making."

Wales also gained from its quick communications and an abundant supply of good labour. "Our products are distributed all over the world and South Wales has a transport system which can move goods quickly," said Mr Joachim Burkhardt, project manager at Miskin.

Another factor was the easy availability of labour in the area. Within a dozen miles of the Bosch site are companies such as Sony, National Panasonic, Race Electronics, AB Electronics, all having good, skilled labour.

The ability of these companies to attract the necessary skills told Bosch it could also find the sort of workers it wants. About one in 10 of its employees are expected to have a university or university-level education.

Bosch refuses to be drawn on whether it will go for a single-union deal, though that would be no trouble in South Wales. Plenty of companies have already gone down this path.

But the word "flexibility" features prominently when discussing its method of operations, pointing in the direction of a single-union deal.

Unlike most of its neighbours Bosch will predominantly employ men, a welcome feature in a part of the world where job creation has helped women but where layoffs have largely been at the heavy, men-embodying end of industry.

"Wales is now very important to Bosch," Dr Oberitz added. "It is our first manufacturing venture in the UK and it will make a point that is critical to the future of our automotive components business."

Bosch is confident it has made the right decision and that we shall be part of the Welsh, business and social scene for many years.

That is a sentiment that Dow Corning is also expected to reiterate this morning.

Tories 'may lose 12% of vote' over NHS policy

By Alan Pike and John Mason

UP TO 12 per cent of Conservative supporters could switch their votes if the Government continues with its planned reforms of the National Health Service, according to a survey published yesterday.

The findings of the poll, carried out for the opposition Labour Party by Mori, came as health and social services charities warned that the health service would face an uncertain future if the Government implemented the reforms without public or professional support.

The charities said it appeared that the Government regarded the model patient as "a person in a supermarket with time and money to spare in a health care system."

Many patients did not come into this category. The elderly, the disabled, ethnic minorities, the homeless and families with large numbers of children already had difficulty finding general practitioners willing to accept them and this problem could increase under the Government's proposals.

Competition in health care meant that there would be winners and losers. The losers were likely to be from the most vulnerable groups.

The Mori survey found that 82 per cent of those questioned, including non-Tory voters, thought the reforms would lead to poorer standards of health care.

Mr Robin Cook, health spokesman for the opposition party, said the reforms could lose the Conservatives 1.5m votes and many marginal seats at the next election. Of 575 Tory voters questioned, 82 per cent would be happy with the NHS in its current form if it were properly funded and 77 per cent thought it was under-resourced - 43 per cent thought the reforms would lower treatment standards against 39 per cent who thought standards would rise.

If the reforms went ahead, 2 per cent said they were certain to switch votes away from the Conservatives, 3 per cent were very likely to switch and 7 per cent fairly likely to switch.

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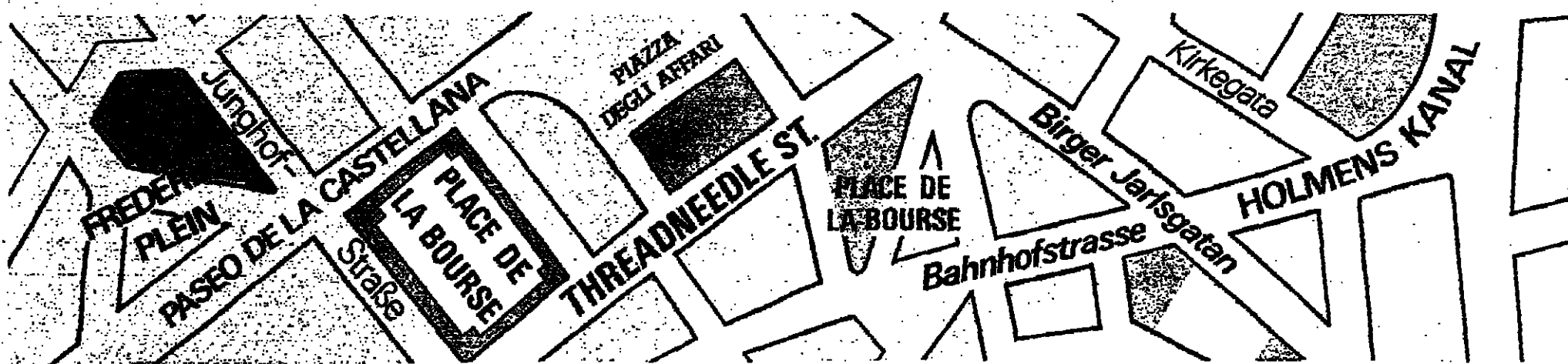
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US Treasury loses tax credit

REGINA v INLAND REVENUE COMMISSIONERS, EX PARTE CAMACQ CORPORATION AND ANOTHER

Court of Appeal (Lord Justice Dillon, Lord Justice Lloyd and Lord Justice Farquharson): August 3 1989.

The Inland Revenue may revoke tax credit clearance given in respect of capital share dividends payable to a foreign Treasury by a UK company, if it doubts it was right to have given such clearance in that sovereign immunity from tax may not apply, and the foreign Treasury would be benefiting from an artificially produced tax credit not available to other shareholders.

The Court of Appeal so held when dismissing an appeal by Camacq Corporation and Cambrian and General Securities plc, from Mr Justice Kennedy's decision refusing their application for judicial review of an Inland Revenue decision to revoke a tax credit authorisation.

LORD JUSTICE DILLON said that at the end of 1988 Camacq, an American company, made a public offer to acquire the whole share capital of Cambrian, a British company.

According to US tax law, unless Camacq could acquire not less than 80 per cent by August 3 1989, Camacq and its parent company might face US tax liabilities equivalent to \$10m.

Camacq acquired 70 per cent. The remaining 30 per cent included 20 per cent held by an escrow agent for the benefit of the US Treasury as part of a penalty levied against a US criminal.

Camacq wanted to acquire those shares, but could not increase the public offer price, which the escrow agent had not accepted, because that would be contrary to Takeover Panel rules.

The parties negotiated alternative arrangements by which a dividend would be declared by Cambrian on its capital shares, payable out of capital profits. On payment of the dividend to the escrow agent he would become entitled to tax credit equivalent to the advance corporation tax payable by Cambrian.

That would increase the money received by the escrow agent for the shares by some \$3m.

The Takeover Panel approved the proposal as not involving any infringement of the Code.

The contract negotiated between Camacq and the escrow agent was conditional on Inland Revenue clearance for him to receive the tax credit.

Payment of tax credit to a foreign state could be achieved either by the state's application to the Revenue after receipt of the dividend; or by Revenue authorisation to the company to pay the amount of the advance corporation tax (which was necessarily equivalent to the amount of the tax credit) direct to the foreign state with the dividend, thus by-passing the procedure of payment to and claim from the Revenue.

The latter procedure was covered by Regulations made in 1973. The arrangements were made at the Revenue's discretion and could be revoked at any time.

On June 8 1989 the Inspector of Foreign Dividends authorised Cambrian to pay the proposed dividend to the escrow agent with the amount of the tax credit.

On June 29 the Inspector learned that Cambrian was proposing, on the following day, to send a circular letter to capital shareholders announcing the dividend. He had doubts as to whether in the peculiar circumstances it was appropriate to pay tax credit to the escrow agent.

In view of the urgency, as the circulars were to be sent the next day, he decided to revoke the authorisation.

Cambrian and Camacq applied to the Divisional Court for judicial review. Mr Justice Kennedy refused to quash the Revenue decision. Cambrian and Camacq appealed.

Proceedings relating to income or advance corporation tax were outside the scope of the State Immunity Act 1978 (see sections 1, 11 and 16).

Where a company resident in the UK paid a dividend, it became accountable for advance corporation tax, and the recipient of the dividend was entitled to tax credit equal to the amount of the tax (see sections 20 and 231 of the Taxes Act 1988).

Section 232(3) of the 1988 Act provided that where a dividend was income of a foreign government, that government was entitled to a tax credit to the

same extent as a UK resident. Section 231(3) provided for the tax credit to be set against income tax. That was qualified, however, by section 235, by which exemption from tax did not extend to dividends arising from pre-acquisition profits.

The purpose was to prevent a tax avoidance device under which shares on which dividend was to be paid, were transferred so that full tax credit could be recovered by the transferee, though attributable to pre-acquisition profits on which the transferor could not have claimed credit.

Inland Revenue practice, as set out in its affidavit, was that a foreign government, though not normally entitled to relief under a double taxation agreement, might be entitled to tax credit by virtue of section 232(3) of the Act. Where it enjoyed sovereign immunity the government was not subject to UK income tax and was therefore entitled to have the whole of the tax credit.

The difficulties in the present case stemmed from the unusual nature of the dividend.

It was apparent to the Inspector that the escrow agent had rejected an earlier offer by Camacq to purchase the shares, which would have netted him approximately \$3.5m; that the present transaction was stated specifically to be structured to net him \$4m; and that the difference between the two figures were wholly or mainly attributable to the tax credit of approximately \$3m.

In the circumstances the Revenue doubted whether the escrow agent had the benefit of sovereign immunity. It revoked the authorisation. It drew its attention to the fact that the dividend was to be paid appeared to be pre-acquisition profits.

It said the dividend seemed to have been artificially arranged to take advantage of UK tax rules in circumstances in which, under section 235 and article 10 of the US/UK Double Taxation Agreement, the tax credit might not be available to other shareholders.

In those circumstances there was no doubt the Revenue had good cause to revoke the authorisation.

There was no binding rule that it must give consent to payment of the amount of tax

credit by the company direct to a foreign sovereign.

It had given such authorisation, but on further matters coming to its notice which made it doubt whether it was right to have done so, it was entitled to revoke it.

In view of the imminent sending out of the circulars, it was bound to act promptly.

The appeal was dismissed. LORD JUSTICE LLOYD agreed said that the reasons given for the cancellation was that the Revenue was doubtful whether sovereign immunity applied where a foreign state was obtaining the benefit of an artificial arrangement designed to produce payment of a tax credit in circumstances in which neither a UK nor a US taxpayer would have benefited.

Mr Donaldson for the companies argued that a doubt in the Inspector's mind was not enough. He said the Inspector was obliged to express a view one way or the other. If he had, the court would be entitled to examine that view so as to see whether it was correct in law.

That argument was not accepted. If the Inspector had never given his original authorisation on June 8, he could not have been compelled to do so by way of judicial review.

If he had expressed a doubt at that stage there was nothing the two companies could have done about it.

The position was not changed by granting the June 8 authority, so far as judicial review was concerned, unless the authorisation had created some sort of estoppel. That was not asserted.

The doubt created in the Inspector's mind by further information received subsequent to June 8, was in itself sufficient reason to justify the cancellation.

LORD JUSTICE FARQUHARSON agreed with both judgments.

For the companies: David Donaldson QC and Andrew Green (Freshfields). For the Revenue: Ian Glick QC and Timothy Brennan (Inland Revenue solicitor).

By Rachel Davies Barrister

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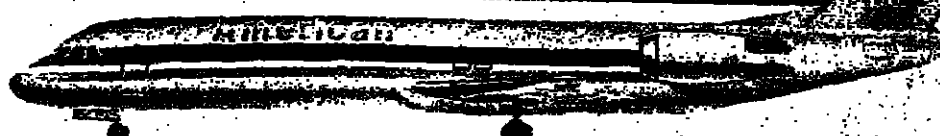
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"I don't agree with the White Paper at all on the idea of cash bids for television franchises."

Rupert Murdoch 25.8.89.

Rupert Murdoch, most ardent of free marketeers, said in his recent speech at the Edinburgh Television Festival that he was against the auction of the ITV franchises as proposed by the Government's White Paper on Broadcasting.

He is just one more in the long line of those who have stood up and declared their opposition to this proposal.

To mention but a few:

which will benefit only the Treasury."

Mrs Jocelyn Hay, Voice of the Listener.

"Even in the US, broadcasting licences have been awarded, not auctioned off, by the Federal authorities. France sold off its first national television channel TFI, to the private sector in 1987, but did so after fixing a price and then choosing between those who were prepared to pay it."

Financial Times.

"Out of uncertainty and ignorance, therefore, there is a good chance that some bids will be pitched uneconomically high.

If he's not for it, who is?

"Criticism of the proposals has been almost universal. It has come not only from the industry but also from the Consumers' Association, the Peacock Committee and even most of Fleet Street. If enacted, the proposals will be bad for business, the consumer and Britain's image abroad."

Dr Patrick Barwise, London Business School.

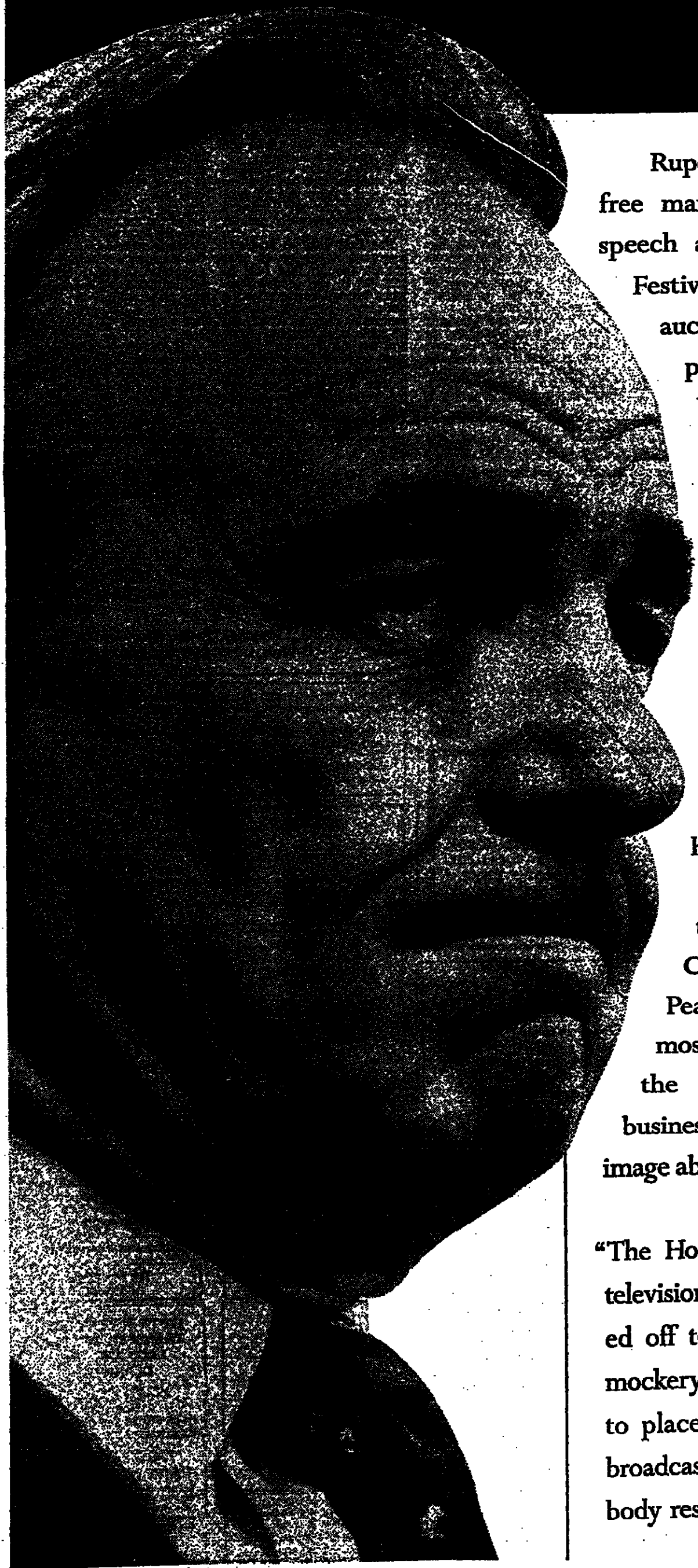
"The Home Secretary's statement that television franchises are to be auctioned off to the highest bidder makes a mockery of the Government's claim to place the viewer at the centre of broadcasting policy. Not one consumer body responded favourably to this idea

And that is not to dismiss the 'power and prestige' bids from those who simply want to hold a franchise, at whatever cost. There will be some of those."

Kleinwort Benson, Merchant Bankers.

"We urge the Government to look very carefully at the implications of the proposed [tendering] system. We would regret it if the high cost of acquiring a TV franchise on Channel 3 discouraged the licensees from providing a high quality service which attracted viewers of all categories and ages."

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MANAGEMENT: The Growing Business

Students take first steps into business

Charles Batchelor reports on the benefits of a scheme which brings amateur expertise to corporate problems



Patrick Brennan (left) saved Andrew Kluge £18,000 a year

Andrew Kluge, managing director of Supercover (Bolton), which makes plastic rain hoods for push chairs, had to keep putting off plans to introduce a piece-work system for his assembly line because of pressure of work.

Supercover, with a workforce of 70 and projected turnover this year of £1.5m, had been growing at such a fast rate that there was never enough time to sit down to work out the details. "In a small company you have priorities and those at the bottom of the list just don't get done," says Kluge.

Finally Kluge called in outside help and last summer a piece-work system was introduced for the 12 men in the assembly shop. The outside help consisted not of a professional management consultant skilled in time and motion studies but of a third-year textile technology student, Patrick Brennan, from the Bolton Institute of Higher Education.

Brennan's formal qualifications for the job were a business management course which had formed part of his textile studies and a textbook he brought with him on the subject of piece-work systems. More important was his fresh, outsider's view of Supercover's problems and his enthusiasm for the task.

Kluge is just one of a growing number of smaller business managers to entrust important aspects of their company's development to the enthusiastic amateur. Brennan was among 285 students to spend eight weeks last summer working with a small firm as part of the Shell Technology Enterprise Programme (STEP).

The programme is intended to break down mistrust between entrepreneurs and undergraduates and to give students experience of working in a smaller company. Unlike a sandwich course placement, which aims to produce a better engineer or chemist, the STEP programme is intended to make the individual more enterprising and give him or her the confidence to take decisions, change things and use initiative.

The students earn £75 a week for eight weeks, most of which is paid by STEP's sponsors, with a total of £150 in wages being provided by the small firm.

STEP has just completed its third year. Devised in 1986 by Shell UK and run by Durham University Business School, it placed 20 students in the north-east of England in its

first year and now covers much of northern England, Scotland, Wales and Northern Ireland.

The result of Brennan's work for Supercover was dramatic. Productivity in the assembly operation leaped by more than 60 per cent in the first week of the scheme and is expected to settle at around 50 per cent. Earnings have increased to reflect the rise in productivity but Supercover still expects to save around £18,000 a year from the new method of payment.

Kluge acknowledges that there was a risk in entrusting such a delicate task to a newcomer. Brennan's research into productivity levels could have antagonised the workforce and harmed labour relations. It could simply have proved unsuccessful and a waste of time.

Kluge says he was sceptical that a student "wet behind the ears" could handle the job but he interviewed several applicants and was impressed with Brennan, who, at 26, was older than most and had had work experience. "But I felt confident Patrick could do the hard work and produce recommendations which I could take as they stood or tweak the way I wanted." One or two of Brennan's suggestions were "too

technical," says Kluge but Brennan soon settled in and established a good relationship with the workers he was assessing.

Though Brennan did not bring any specialist skills to his STEP placement, sometimes students do have expertise which can be applied directly to the project.

Lynne Purnell, a 20-year-old maths student at St Andrews University, was able to make use of her studies in her project at Velden Engineering, a Bolton-based subcontracting company with turnover of £3m and workforce of 100 people. Alex Kitchen, managing director, says the chance of having a student with maths skills was "too good an opportunity to miss."

Velden has used computers in parts of its business, including a bar-coding system for production control for the past five years. But the company was keen to integrate the different elements into a single system covering the entire process from customer enquiry to invoicing and delivery.

Standard software packages do not cover Velden's need for a system which would calculate manufacturing times and prices, says Kitchen. He calculates he would have to spend up to £200,000 on buying in

custom-tailored software so in order to reduce costs he wanted to do as much as possible of the preparatory work in-house.

Purnell says she only realised how ambitious Velden's plans were when she met other STEP students who were also working on computer projects. "They were amending existing computer systems," she says. "We were the only ones attempting to write brand new programmes from scratch using the latest database technology."

Kitchen reckons Purnell did much of the "nitty gritty work" and helped the company get well into the early stages of devising a new software system. He compares her contribution to that of a management consultant, someone with an outsider's detachment and the time to look at problems for which managers and supervisors had no time.

Sportswise, a Maryport, Cumbria-based manufacturer of first-aid kits for walkers and sailing enthusiasts, was another company to benefit from this outside perspective. Michael Gregson, managing director, had devised a discount offer for people going on expeditions.

Anyone who said he or she was undertaking an expedition

was sent a voucher giving 25 per cent off the purchase price. The retailer redeemed the voucher with Sportswise. The effect of this arrangement was to depress Sportswise's margins and give all the benefit of the promotion to the retailer. Yet for a three-year-old company with projected turnover of just £120,000 in 1989-90 every pound of profit is essential.

Samantha Dockway, a 19-year-old psychology student at Sheffield University, was initially asked to design a voucher for the discount offer. But when she looked more closely at the offer and realised its financial implications, she suggested changes. As a result, expedition leaders now get their first-aid kits directly from Sportswise. They still get the discount but by paying direct they increase the company's margins.

Gregson originally planned for Dockway to design and produce a newsletter for the company but when he realised the likely cost of such a venture the idea was dropped. So Dockway turned her hand to general publicity. She redesigned the point-of-sale packaging to achieve a stronger impact and compiled a brochure of press cuttings. In all, Dockway calculates she carried out 15 different projects for the company.

"I am too close to it," says Gregson. "Samantha came in from a distance and said, 'If this is the message you want to get across they must say this.' Someone coming in from the outside can come up with some valid and perceptive points." Kluge, Kitchen and Gregson were all very pleased with the work their undergraduates carried out but the placements do not always run smoothly. Some students complain they are not given enough direction by the managers while on one occasion this year the project proved too ambitious for the student's technical knowledge.

But for the most part both sides gain considerable benefits. The students contribute in very important areas of the business's development while at the same time gaining personal and business skills. "It seemed a mammoth task on the first day or two," recalls Patrick Brennan. "I felt ploughed under at first but then away you go."

Contact David Mullen, Durham University Business School, Mill Hill Lane, Durham DE2 3LE. Tel 0191 374 3001 or Shell Enterprise Unit, Shell Mex House, Strand, London WC2R 0DX. Tel 01-257 4000.

Starting up in Spain

Untangling the red tape

Charles Batchelor reports on Mertek's experiences

Starting a business in your own country can be difficult enough. Beginning in a foreign country is even more of a challenge.

Malcolm Robb, a Scotsman, decided to set up in business for himself in Spain when his employer, Seaway Technology, decided to close down its office in Tarragona, near Barcelona. Seaway had been engaged in oil exploration survey work off Spain's Mediterranean coast but had barely managed to make profits against the local competition.

Robb reckoned that the business could make profits if it were run as an independent operation. He had also spent his savings on having a house built in the mountains behind Tarragona so he was reluctant to return to Britain.

Together with a Spanish colleague, Victor Valck, Robb struck a deal with Seaway to take over the office furnishings and some survey equipment instead of claiming the statutory redundancy payments in Spain these can be punitive.

Robb, who is 37 years old, has technical skills - like Valck, who is 44, he is an electronics engineer - and had five years' experience of working in Spain. What he lacked was the expertise needed to run a business of his own. "I read every book dealing with start-ups that I could get my hands on," he recalls.

A Spanish Government scheme to help the unemployed start up in business provided the two men with a down payment of Pta 1.5m (£7,800) each. "Rather than put you on social security the government pays you the equivalent of two years' benefit in a lump sum if you can produce a plausible business plan," says Robb. The government does not, however, back up the money with any advice.

The two men continued to do some work for Seaway but started to look for other customers; and to help foreign companies engaged in survey-related activities to market themselves in Spain.

Unlike in the UK, businesses cannot be bought "off the shelf." They must be individually registered, a process which can cost up to \$5,000 in professional fees and official licences and which can take four to five months. Robb got off to a slow start by going to a lawyer who wrote long formal letters but after three months had made no progress.

He then went to a younger, more aggressive bookkeeper or "gestor" who sorted out their application in a matter of weeks.

They also made a disastrous attempt in their first year to diversify into sewer inspection. They spent £15,000 of their £25,000 savings on buying the equipment, only to discover there was no market.

"It was a total flop," says Robb. "We found that the Spanish do not like looking for problems which can be

ignored." Three years later, however, they are starting to find uses for the equipment - such as inspecting dam bases.

They also discovered that marketing in Spain could only be done by personal visits. A half-page colour ad costing £500 in the local daily paper was a complete failure. Even advertisements in specialist trade magazines produced no response. "No one reads the ads," says Robb ruefully.

Writing letters introducing the company also had no effect - but if a letter was followed by a telephone call Robb and Valck could usually get an interview.

The first year in business produced turnover of just £70,000 though this rose to £120,000 in the second year when Mertek began winning contracts to represent overseas companies such as AR&I, the US telecommunications group, and British Telecom, which were entering the market for marine telephone cable installations. This led to contracts for Telefonica, the Spanish

telecommunications group. In its third year Mertek expects turnover to rise to £250,000, 80 per cent of which will be from UK companies. Robb expects that helping in Spain will form a growing part of the business.

Profit margins are good but Mertek has to keep a close eye on its cash flow and make sure that customers stick to its payment terms. Mertek's British customers pay in 30 to 40 days but Spanish companies expect to delay payment for between 120 and 180 days.

Government departments expect 120 days' credit but Robb says he insists on payment within half that time. "I would turn a job down rather than risk a serious cash flow problem," he asserts. "We start chasing payment on day 31. We have never had to get nasty though we have had to put the squeeze on. You can't resort to the law but you can say that your children are starving to death. That usually works."

Tax and VAT have to be paid quarterly but repayments are only made once a year which adds to the pressure on cash flow. In fact, Robb says he considers the VAT repayment - £3,500 last year - as a form of hidden savings.

Like most small businesses in Spain Mertek makes use of an independent bookkeeper or "gestor" who keeps the books up to date, deals with social security payments, and handles most of the voluminous paperwork which the local bureaucracy imposes.

When Mertek rented a warehouse, for example, the local authority required reams of information on what materials it intended to store, what staff it would employ, who its clients were. Similarly when it set out to change the telex code from the one used by Seaway, the local office of the telecommunications authority said the machine would have to be disconnected and a new one applied for. Robb had to go to the head office in Madrid before the authority would agree simply to change the code.

"It was very complex and time-consuming," says Robb. "When you are starting a business it is the last thing you want."

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BUSINESS PAGES ALSO APPEARS ON PAGES 25 & 35 TODAY

ARTS

Much more to see than military history

William Packer is taken with the variety of museums in Northern France

The Pas de Calais is steeped in the common history of France and England, but unless one's interest is in military history from Agincourt to Dunkirk, the region remains for the British traveller that first stretch of indifferent countryside that one gets through, as quickly as possible for Paris and the South.

But the France at our doorstep has never been more accessible, and with the tunnel in prospect can only become more so. Last week, in a party of critics and journalists, I was the guest of the Association des Conservateurs des Musées du Nord Pas de Calais. There are some 30 member museums, of all kinds, in the towns and cities of the region, and between Wednesday and Friday we were shown 13 of them by their enthusiastic and, for the most part, young curators. They were fascinating.

The Museum of Contemporary Art at Dunkirk is set within a most in a landscaped park, with the sea as its backdrop. Dating from the early 1930s, externally it is the most impressive of the newer buildings and alone worth a visit. Its collection has yet to expand significantly beyond the personal taste of Gilbert Delaine, on whose gift it is founded, but the new mayor is ambitious for its development, and a new curator has been appointed: we shall see.

The Museum of Modern Art at Villeneuve d'Ascq, too, dates only from 1933 and again is set in a public park, with sculpture browsing on the grass. Its brick building is the more self-effacing, but considerably more sympathetic in its interior to the practical business of showing art. Its core is the collection begun in 1905 by Jean Dutilleul and carried on by his nephew, Jean Masur. Though again qualified by the quirks of a personal taste, its strength is in the School of Paris of the early 20th century, with major holdings in the work of Picasso, Derain, Léger, Laurens and Modigliani.

The two most beautiful modern art museums are set in old buildings adapted to the purpose. The Museum of Drawings & Prints at Gravelines is set in the town's Vauban Fortress and Arsenal, laid out in the 17th and 18th centuries with ramparts, re-entries and canals, the work of Christian LeBlond, the Uncle Toby. The current show (about 19th century drawings) is a retrospective of the etchings of Jacques Villon, tracing

his personal development through cubism from the 1900s to the 1940s.

That a small town and a tiny museum can aspire to exhibitions of the highest quality is a point immediately confirmed by the Musée Matisse at le Cateau-Cambrésis. Matisse was born in the town and the museum was the only one he himself established. It moved to the 18th century Palais Fénelon in 1982. The collection covers the full range of the work, with painting, sculpture and collage from all periods, but is especially strong in the drawings. Special shows apart, a representative selection of the work is always on view.

But the more usual charm of the local museum, great or small, is its miscellaneity. The Municipal Museum of Saint-Amand-les-Eaux, as its curator put it, may be the region's smallest museum but it is by far its fullest. A fine collection of local ceramics is housed in the bell tower, all that remains of the ancient Abbey. Built by an autodidact, this a bizarre inventory of the architectural orders has in its top a cartillon, on which we were treated to an impromptu concert that began with "Summer Time".

The museum of the Hospice Comtesse at Lille is essentially a museum of local history, with its tiled and panelled interiors. At Douai, the museum in the old Charterhouse is strong in Flemish painting of the 15th and 16th centuries, but with a miscellany that extends to a Giambologna Venus, a Venetian woman by Veronese, a Van Dyck gentleman, Rubens, Ruyssdael, Chardin, Watteau, Troy, Corot, Courbet, Pissarro, Bonnard. And at the museum in the Hôtel Sandelin at Saint-Omer, the quality of the assortment is, if anything, even higher, making it the perfect small museum. Downstairs a row of period rooms is exquisitely set out, with paintings by Greuze and Boffly, Holbein and Gerard David, upstairs cabinet upon cabinet stuffed with porcelain, a room full of armour.

The civic museums of Calais and Dunkirk are in modern buildings replacing those flattened in the War, and though both place the emphasis on the fine arts, they too have their miscellaneous side. Calais with its lace and local history, Dunkirk with its wonderful model boats. The Musée des Beaux Arts at Tourcoing is an engaging hybrid, with ample 19th-century galleries grafted onto a 19th-century mansion. These are the most handsome exhibit-



"The Finding of Moses" by Johann Liss, at the Musée des Beaux-Arts de Lille

spaces of any we saw, and perfect for contemporary shows. The permanent collection, hung generously in the largest hall, includes the charming large equestrian by Carolus-Durand and the extraordinary Sarah Bernhardt by Georges Clézio, stretched panther-like and predatory upon her tiger skin.

The Musée des Beaux Arts at Lille and Valenciennes are major institutions by any standard, and particularly strong in the Flemish and Dutch schools. Valenciennes is the smaller, but among much else, boasts a large collection of paintings and sculpture by Carpeaux, some delicious Paters, a great portrait by Watteau of the Peter's father, and major religious works by Rubens and Janssens. The modern collections were not on show.

Lille is extensive if uneven, strong in Dutch and French painting from Rubens to Lautrec. At every turn there are splendid things - van Goyen, David's Belshazzar, Boffly's Triumph of Marat and a wall full of studies of his friends. There are two wonderful large Goyas, El Greco's Saint Francis, Rodin maquettes, two heads by Camille Claudel and a bas-relief of the Feast of Herod that is the only Donatello in France outside the Louvre. The early 17th century Johann Liss, of the Finding of Moses, is as fresh and free as can be, a real surprise.

The Paul Nash exhibition reviewed last week is at the Turner Art Gallery, Eastbourne.

Lucia di Lammermoor

NEW THEATRE, CARDIFF

There are few more invigorating experiences for a tired hack than a production that didn't quite work returning transformed. Such is the case with the Welsh National Opera's 1986 Lucia. The names of William Gaskill and Utz are no longer in the programme, but their interesting semi-abstract concept, more John Buxton than Walter Scott (and why not?), now justifies itself triumphantly in Rennie Wright's extremely skilful re-staging.

Belief in the piece's dramatic viability shines through Wright's direction, nowhere more brightly than in the scene for brother and sister at the opening of the second act, which is as painful as it should be, and the pain lasts right through to the end of the Mad Scene. He is fortunate, admittedly, in interpreters as forceful as Frances Giner (a properly spirited as well as an unstable) and Mark Holland, the bullish, unimaginative Enrico.

But the real revelation is in

the pit. Sir Charles Mackerras conducts the opera that Donizetti wrote, not the much-tinkered-with score that until recently was the norm. Original keys are restored (it makes a hell of a difference), cuts are opened (the whole Wolf's Crag scene, as well as the shoot-out for Raimondo and Normanno after Lucia's death), all that late-19th-century nonsense with the flute is consigned to the dustbin where it belongs. Sir Charles kept a facsimile of the autograph at his side throughout rehearsals, and uncovered misreadings that escaped the eye even of Jesus Lopez-Cobos, an earlier Lucia-restorer of note. Decorations of second verses are thrillingly apt.

The disposition of players in the pit follows 19th-century practice: Sir Charles stands in the middle, with strings placed antiphonally in front of him and brass and woodwind behind him facing the stage. Giner, though the woodwind speaks far more clearly especially the vital clarinet, and the use of specially made nar-

row-bore trombones added a whole new colour to the orchestral palette. It will sound even more interesting in theatres without a pit. All of this would be of little value were not Sir Charles a superb Donizetti stylist: his reading was of gripping dramatic fervour, revealing a living masterpiece of *ottocento* theatre for which no excuses, historical or otherwise, need be made.

Miss Giner, whose lyric soprano has edge and character as well as the necessary agility, sustained the higher tessitura with ease; Peter Bronder (Edgardo) followed period practice by sketching in an easy E flat from the head in the cadenza at the end of the first act; Alastair Miles was a sensational Raimondo; Michael Preston-Roberts turned Normanno from a minor into a major role. Seek out this Lucia wherever it may be lurking over the next months - it is a real eye-opener.

Rodney Milnes

The Who

NEC, BIRMINGHAM

The Who are playing the Birmingham National Exhibition Centre tonight and there are tickets available. It's all in a good cause, to top up the pensions of three middle-aged millionaires who, in their time, gave a lot of pleasure and who are still prepared to have a go. You won't be disappointed, for the Who were a cult band who failed to fade away. Their era was the Britain of the late sixties, of the marching Mods, but a bizarre fate decided that they should also act as midwife to that dire decade, the seventies, when pop took itself seriously. The result was Tommy, the first rock opera - and it was a triumph.

Tommy gave The Who a reputation and riches and the overwhelming impact from this three-hour show, their first for seven years, is that the money has been shrewdly spent. There is enough brass on stage to hold a military parade; a drumkit as big as a battleship behind which new

drummer Simon Phillips performs miracles, aided by Robin-like percussionist Jody Linscott; backing singers who also act as contrabassists; and enough light and sound to satisfy Wolfie playing King Lear.

Roger Daltrey, the Dorian Gray of pop, still stomps his feet and twirls his mike lead - and usually manages to catch it; Pete Townshend handles his guitar much better than most senior editors at Faber and Faber (in fact really rather well) and parodies his former self with a few windmill attacks of the arms and even the occasional scissor kick; while John Entwistle on bass has obviously not moved for 20 years, a stolid, efficient, back-room bass player who has turned white in his devotion to a solid beat.

You look for the cracks but there are few. Townshend, the star performer, avoids the much touted protective shield on the side of the stage to ease his incipient deafness, but the

trio seem to have little genuine love for each other - there is no body contact - and, of course, much of the repertoire is pretty mundane.

But with the resources behind them operating at full blast The Who deliver some impressive early songs, once the tedious Tommy medley is despatched. Daltrey is perhaps confused about who he is singing "My Generation" for and lets the enthusiastic audience spit out most of it, but "Substitute" was a real winner and "Won't get fooled again" keeps its bite. The Who's attempts to be verbal yobos are hardly seemly at their age but if the raw energy of the past has been replaced by a music machine this was still an enjoyable experience. And it was rather sweet to see the band's teenage kids bopping on the side of the stage where the groupies used to congregate.

Antony Thorncroft

The Neville Brothers

TOWN AND COUNTRY CLUB

The Neville Brothers are a band whose time has come. Long-time legends in their native New Orleans, the Brothers have languished in relative obscurity since the mid-1970s, robbed of wider exposure in America because of an eclectic musical style that defies easy classification and political views that did not conform to the strict demands of US radio.

Now things have changed. Buoyed by the support of a few notable aficionados such as Rolling Stone Keith Richards, this year's album, "Yellow Moon", has proved a critical and commercial success. Their two dates in London this weekend were sell-outs, attracting both old and new fans, plus a sprinkling of pop's glitterati.

But the Nevilles are not letting the adulation go to their heads. With singer Aaron, 43, keyboard player Art, 51, sax-

phonist Charles, 50, and baby brother percussionist Cyril, 40, they are no overnight successes and their feet remain firmly planted in the rich soil of the Deep South.

The sound of the Neville Brothers is a potent Creole brew. Built on an earthy rhythm, only blues stick, the Nevilles' jambalaya is laced freely with ingredients of spicy funk, sweet soul, red-hot reggae, breezy jazz, topped with a sprinkling of doo-wop, cajun and rock and roll. It is food for the heart and mind that would satisfy most appetites.

On Saturday night at the Town and Country club in north London the brothers were in top form, whipping up a Mardi Gras storm that Hurricane Hugo would have been proud of.

Cyril Neville's percussive talents on the congas, timbales, whistles and cow bells etched

a strong Afro-Caribbean seam into the multi-layered sound, while Charles' snake-charming saxophone and Art's stirring keyboard work added the haunting quality so evident on the band's recorded work.

The songs from the new album worked particularly well. "Too Doo" was low and funky enough to summon up the spirits from every swampy hole in the Bayou, while the rousing rap of "Sister Rosa," a tale of civil rights and racism, carried the stamp of genuine political commitment.

On the slower numbers, Aaron Neville came into his own. His clean falsetto breathed new life into the Sam Cooke classic "A Change is Gonna Come," Bob Dylan's hymn "With God on Our Side," and his own solo 1966 hit, "Tell It Like It Is."

Patrick Harverson

Tartuffe Today

LYRIC THEATRE, BELFAST

The 200th anniversary of the French revolution is marked by a double dose of Molière in Belfast. Derek Mahon's update of *L'École des Femmes* has taken the Arts Theatre on a spin round the highways and byways, leaving the Lyric's *Tartuffe Today* to keep the home fires burning. It does so with a feeble flicker removed from the white hot comedy of Molière himself.

It is unfortunate that Jonathan Myerson's production goes so wrong, since the equation of Molière's religious hypocrisy with a sanctimonious clerical impostor gives it an inspirational start. Orgon makes a smooth transition to Simon McCulloch, wealthy Belfast estate agent and fulminator against "the scarlet harlot of Rome and that Fenian lackey, Runcie." His daughter Marion prances around in school uniform with maverick bulk of a rugby-playing boyfriend propped up Ireland's second row, and Molière's lady's maid is transformed, in deference to the times, into a pertly managing niece, adopted by McCulloch after the death of her parents.

So far so apt. The idea that

McCulloch's sectarian bigotry could be so mindless as to blurt out a sponging lump - creates a genuine enough platform for Molière's comedy, but one from which the production never quite manages to leap. The problems begin with John D. Stewart's adaptation, meekly updated from 1971 when its replacement of the original verse with a brittle idiomatic prose would probably have seemed more adventurous, and more idiomatic, than it does today.

Nothing dates more quickly than the language of satire. Giving Tartuffan a cellular phone and adding references to Runcie are merely cosmetic changes to a play in which a grandmother's condemnation of the corruption of youth is expressed as "you Vanessa Runcie, you!" and Tartuffan's moral anathema are summarised as "mini-skirts and bikinis and pornography." Mini-skirts and pornography, perhaps, but surely not bikinis.

The problems are intensified by an absence of the sort of farcical hysteria that might have opened a little in Tartuffan's capacity for

delusion. Liam O'Callaghan plays the tyrannical patriarch McCulloch without any driving sense of urgency or outrage. This becomes a major structural problem in the central scene of exposure when Fay Howard, desperately overcompensating as his wife, Eleanor, pretends to seduce the lustful cleric on the understanding that her husband - secreted in the conservatory - will rescue her in time.

Sean Caffrey does, to be fair, do his best for Tartuffan, hair smeared across a bad patch that is perpetually scarlet with uncontainable lust or contained moral outrage, while Ann Hassan turns in a neat performance as the smart, manoeuvring niece, Doreen. But things have come to a pretty pass when the biggest laugh of an admittedly thin house is raised by the repeated slopping of alcohol from the glass of McCulloch's right-minded but wrong-footed brother-in-law, played by Malcolm Douglas with the gormless approval of an extra from a Ben Travers farce.

Claire Armitstead

Pinchas Zukerman

BARBICAN HALL

Zukerman's appearance on Sunday afternoon was the start of the Barbican's series of celebrity recitals. Partnered by Marc Nekru, he offered a fresh, well-balanced programme - Schumann's violin music is not heard as often as it might be - but his playing was almost uniformly pallid on short of ideas.

At first it seemed simply as if Zukerman was taking time to settle and to adjust to the size of the hall. Stravinsky's *Suite Danzanne*, given not in the standard violin-and-piano version in six movements, but an earlier arrangement without the Scherzino, was an almost perfunctory run-through with some strange tempi and a positively funereal start to the final minuet, and delivered with strangely contrived tone.

Parts of Beethoven's Sonata Op.12 no.3 were equally uncertain, though the slow movement at least began to take shape, and the phrasing to acquire a sense of purpose. But neither Zukerman nor Nekru seemed willing to take firm control - the pianist's main contribution was to introduce an alarming deceleration in the middle of the first movement.

Schumann's Three Romances Op. 94 are better known in the version for oboe and piano, but the score does include violin as a possible alternative. The scoring, though, does demand the extra stringency that a woodwind instrument can bring, and Zukerman in this mood was unable to bring sufficient freshness to the phrasing or crispness to his sound to lift the solo line clear of the accompaniment.

In Schumann's First Violin Sonata too, little imagination appeared to have gone into the performance; there are some marvellous things to be quarried from the work - a casually elegant slow movement which is a close cousin to the intermezzo of his piano concerto, tingling canonical writing at the opening of the finale. But both players were content to skate over the surfaces, never to be faulted technically - Zukerman's facility is as impeccable as ever, and Nekru's followed him watchfully - yet never daring to add creative ideas of their own.

Andrew Clements

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ARTS GUIDE

OPERA AND BALLET

London

Royal Opera, Covent Garden. The new attempt at a Royal Opera Opera is *Die Walküre*, in a production by Götts Friedrich adapted from his Berlin staging. Bernard Haitink conducts, and the cast includes James Morris, Gareth Jones, René Kollo, and Gabriele Schnaut. Thomas Allen gives a Covent Garden recital on Wednesday.

English National Opera, Coliseum. Kurt Weill's magnificent "Broadway opera" *Street Scene* comes to London after being shown by Scottish Opera earlier in the year. David Pountney's production, designed by David Pountney, is conducted by Carl Davis; the cast includes Kristine Ciesinski, Janis Kelly, Bonaventura Bonomo, and Richard Van Allen. Further performances of the surreal, vividly theatrical production of Verdi's *A Masked Ball* by producer David Alden, designer David Fielding, and conductor Mark Elder, with Arthur Davies, Janice Cairns, Jonathan Summers and Linda Finnle in leading roles; and of *The Magic Flute*, conducted by Alexander Mackenzie, with Thomas Randle, John Rodgers, Nicholas Polwell and John Connell.

Paris

Théâtre des Champs Elysées. *Der Rosenkavalier* is performed by the Paris Opera Orchestra, conducted by Georg Schmoeb.

In a new production, co-produced by the Théâtre des Champs Elysées, the Montpellier Opera and the Nantes Opera are the *Les Femmes de la Ville, Jiri Kylián and the Netherlands Dans Theater* come with a programme often influenced by Czech folk-dance and Slav motifs.

Stuttgart

Opera. *Tannhäuser* stars Reinor Goldberg in the title role. Waltraud Meier, Verónica Schild, and Matthias Hoelzl. *Der Freischütz* in Achim Freyer's production returns with Helena Dose, Ulrike Sonntag, Wolfgang Probst, and Toni Krammer. Also offered *Fidelio* and *La Cenerentola*. *Giselle und die Wilis* is choreographed by Marcia Hayec.

Bonn

Opera. *Spartacus*, the new ballet production, choreographed by Bonn's director, Yuri Vavone, proved a sensation, when it opened. *Aida* is directed by Jacques Carpo and expertly conducted by Bonn's music director Dennis Russell Davies and has an extremely strong cast with Rosalind Wiseman, Lando Bartolini, Léyla Budai and Jean-Philippe Lefort.

Frankfurt

Opera. *Il Barbiere di Siviglia* features Marianne Rorholm, Michael Shamir, Bruce Ford, Enzo Dara, Alessandro Corbelli. *Five* is jointly choreographed by Laura Dean and William Forsythe. *La Bohème* has Eiliane Coelho making her debut as Mimì, Patricia Wise as Musetta, Alberto Cuppido in the part of Rodolfo and Bruno Pasqueto as Marcello. Britten's *Ein Sommernachtstraum* rounds off the

Cologne

Opera. *Madame Butterfly* is sung by Hiroko Nishida, Tove Kruse, James Hoback and Jake Garmus. Also the rarely played one act opera by Rossini *La Cenerentola di Matrimonio/Il Signor Bruscia* with John del Carlo, Teresa Ruyssdael, Verónica Schild, Verónica Schild, Alberto Rinaldi and Carlos Fellet. *La Traviata* has a strong cast led by Frances Giner, Fernando de la Mora, Paolo Conti and Erichinger Vigfusson.

Rome

Teatro Dell'Opera. Rossini's *L'occasione fa il ladro* in the recent successful Teatro Festival production (46.17.55).

Milan

Teatro Alla Scala. The Bolshoi Opera takes the place of the Scala Opera Company, on tour in the Soviet Union, with Musorgsky's *Boris Godunov*, Rimsky-Korsakov's *Madra* and Prokofiev's *Duets* (80.51.58).

New York

Metropolitan Opera. James Levine conducts *Aida* in Santa Fritelli's production with Aprile

Russians

FESTIVAL HALL

Esa-Pekka Salonen is in residence for much of the Philharmonia's October schedule in London. His main work with the orchestra will be to lead the South Bank Ligeti Festival; but Sunday's concert of Russian music was mainly in the service of a 20th-century-music fanfare. (The opening work, Balakirev's *Islamy* of 1882, in the 1884 orchestration by Lyapunov, was therefore in the nature of a fanfare to a fanfare.)

It was, by and large, an exhilarating occasion. There are certain things this immensely talented young conductor still can't do with an orchestra, such as make Balakirev's central Big Tune soar - but many things that he can, and this concert seemed as good a way as any of displaying them.

The "sport" item was *The Iron Foundry*, Alexander Mosolov's steam-and-smoke piece of 1920s musical Futurism, which thunders and clangs away for five massively exuberant minutes. Any orchestra worth its name will "make an effect" here, and the Philharmonia duly did so. Of much more significance was the performance of Stravinsky's Symphony in Three Movements (which followed), since it is of infinitely higher musical value, and since the Philharmonia's current strengths (unbeatable wind and brass sections, newly

lithic violins) were so fully drawn upon by the conductor. Salonen kept the chording cleanly ventilated, the cross-cut of accents balletically springy; there was no grandiose heaviness or texture and the unfolding drama of this great work (did Stravinsky write a greater?) was propelled forward with excellent correctness of style. Earlier in the concert, he and the players had responded with similar spryness to the "modernist" ingredients of Prokofiev's *Sinfonia Concertante*, Op. 132 - the tick-tocking or fast-and-spiky rhythmic patterns, the wry sweet-sour flavours. But the late-Prokofiev mixture also needs a considerable infusion of graceful lyricism, and this evidently counts as Salonen's Achilles heel.

Still, since the cellist was Heinrich Schiff, a "singer" of natural eloquence, the balance of the performance came right after all. Schiff's way with this work proved less assertive, less pungently colourful, than that of Rostropovich, its muse and first soloist; the sly wit of his portamentos and understated (yet, for all that, dazzling) command of bravura seemed to me every bit as compelling. A snapped string in the middle movement, with consequent pause and re-start, did no real damage.

Max Loppert

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Thatcher's next task

BRITAIN'S Conservative Party is facing a more cloudy political future than at any time since Mrs Thatcher became Prime Minister in May 1979. As the Tories gather in Blackpool for their annual conference the underlying question before them is: "Where do we go from here?" There may be some difficulty finding a coherent answer. The task during the first two Thatcher terms of office was relatively straightforward: to clear up the mess left behind by the outgoing Labour Government. A number of important principles were put into practice with admirable determination. After an awkward start, high double-digit inflation was brought under control. Public expenditure was rationalised. The trade unions were tamed. Enterprise was encouraged, and rewarded.

During this period the official Opposition was in perpetual disarray, as the former Liberal Party joined Labour Party dissidents - the Social Democrats - to fight for the centre ground. It is hardly surprising that in the immediate aftermath of the third successive Tory election victory, in June 1987, there seemed little reason to doubt that there would be a fourth triumph four or five years later. That mood of near-invincibility helps to explain why the Government felt able to plunge immediately into a heavy programme of "Thatcherite" legislation, much of which is now proving unpopular. It was sensible to aim at getting all the controversial measures through during the first two years or so, but what was not foreseen was the collapse of the centre parties and the concomitant resurgence of the Labour Party.

Economic management

The net result is that two-party politics is back. The consequence for the Tories is that a fourth election victory will be rather more difficult than seemed likely even six months ago. It is doubly unfortunate for the Tories that Labour's fighting strength has returned just when the Government's management of the economy has come under question. There was no choice about the necessity for raising interest rates last week, but

the absence of choice reflects, at least in part, past errors of judgement. The voters may be forgiving if interest rates are brought down again well before the next election, but the adjustment may be longer and more painful than the optimists expect.

Public sector

Another important determinant of the Conservatives' future will be the Government's approach to the public sector. In one area, protection of the environment, the Prime Minister has made a good start by appointing Mr Chris Patten Secretary of State. Mr Patten has already shown that he has a feel for the concerns of Conservative voters in the south-east, not least by indicating that he will not approve of the construction of a new town at Foxley Wood in Hampshire. His statements on television go further than that: he is more in tune with green sentiment than any of his colleagues appear to be, although not excessively so by the standards of current public opinion.

A similar change of approach may be harder to accomplish elsewhere. The former Education Secretary, Mr Kenneth Baker, did well to introduce a core curriculum to Britain's schools, but in other areas the development of a satisfactory education system, especially for the non-academic majority, remains to be achieved. It is reasonable to seek administrative reform of the National Health Service, but the introduction of market Japan is a debate about a public service has not been well-received. Most politicians have an instinctive feel for the voting strength of motorists, but many drivers also understand that public transport needs greater investment.

The success of the Tories over the past decade cannot be separated from the personality and style of Mrs Thatcher. She now has to show, not just that she is responding to the changing mood of the electorate, as on the environment, but that her philosophy and reforming zeal are relevant to a set of challenges which are different in character and complexity from those she faced in her first two terms.

The US fear of foreign capital

THE RESERVATIONS expressed by Mr Samuel Skinner, US Transport Secretary, over the plans by leading European airlines to take stakes in their American counterparts once again raise questions about the willingness of the US to remain open to foreign investment in only as they come hard on the heels of controversial US Treasury proposals for voluntary registration of foreign investment. Some states have also this year imposed new reporting requirements which will tend to deter foreign investment. All this makes inescapable the conclusion that there is mounting US resistance to such inward flows.

The Bush Administration must resist this pressure which has arisen largely because of a jump in Japanese investment, particularly in US real estate. The US will need foreign investment to finance its current account balance of payments deficit for many years ahead. To create unnecessary restrictions would not only stifle the flow and complicate economic policy-making. It could also provoke the imposition of reciprocal restrictions elsewhere, thus jeopardising the free flow of capital on which global prosperity depends.

Behind the fuss lies a shift in the US public perception of what constitutes national security. As they have fretted about their country's trade deficit and declining industrial competitiveness, Americans have begun to ascribe an economic dimension to national security. Economic sovereignty is threatened, the argument goes, if control over key industries passes into the hands of foreigners, particularly if they happen to be Japanese.

Small threat

Yet the real threat is small. Foreign groups still own only some 5 per cent of total US assets. Japan with investments of \$33.4bn accounts for only 16 per cent of all direct investment in the US. As a proportion of host country gross domestic product, Japanese investment in the US is little more than a tenth of US investment in the UK.

So far the Bush Administration has sought to acknowledge this by pursuing a liberal

foreign investment policy. Unlike its predecessor, which blocked Fujitsu's attempt to take over Fairchild, the semiconductor maker, a couple of years ago, it has allowed a foreign company, Vebs of Germany, to acquire a Monsanto company involved in the sensitive electronic sector.

Officials have defended their proposed investment registration rules on the ground that they are a formality required under by the Exon-Florio amendment in last year's Trade Act. This authorises the President to block an investment which will threaten to impair the national security. The rules are, however, deliberately broad in defining industries to which national security concerns might apply. Specifically excluded are only a handful of minor industries and services. Though nominally voluntary, the rules include a penalty to companies which fail to register acquisitions that are later perceived to impair national security. They can be required to divest at any time in the future.

Tacit acceptance

Taken together with the tougher approach to airline ownership, this suggests that current policy does embody a worrying degree of tacit acceptance of pressures for applying a broader definition of national security to inward investment. This could open the door to arbitrary restrictions covering anything even indirectly connected with defence.

Such an approach is hardly compatible with an open foreign investment policy whose guiding principle should be non-discrimination against foreigners in setting competition policy or any other form of regulation.

It is internationally accepted through the Organisation for Economic Co-operation and Development that national security concerns may legitimately present an exception to this rule, but the OECD leaves it up to its members to define what this means. The US now needs to establish such a definition which would lend transparency to its investment policy. If it is to avoid sliding deeper into protectionism, it would be best to keep the definition as narrow as possible.

Peter Marsh and James Buchan on biotechnology and the market place

After 10 years of much scientific progress but little in the way of commercial results, biotechnology remains the great white hope of the international pharmaceutical industry.

Biotechnology which describes a group of biology-based research methods invented in the past 15 years and based on gene manipulation - gives scientists a powerful new armoury against disease. But turning the ideas into new products has been slow.

US companies such as Genentech and Amgen, set up in the late 1970s and early 1980s expressly to capitalise on biotechnology, have developed a small number of biotech-derived drugs, based on copying natural molecules. These drugs reaped sales revenues of no more than about \$1bn (\$624m) last year, which is tiny compared with the \$60bn-a-year sales of the world pharmaceutical industry.

But many in the biotechnology industry are not dismayed. "The world expected too much, too quickly," says Mr Walter Gilbert, a professor at Harvard University who is among the US's foremost biotechnology experts.

People like Mr Gilbert point out that the new medicines made by relatively small, young companies like Genentech and Amgen are just one face to the biotechnology business. The other concerns the deep inroads that the new biology has made in altering research and development strategies in giant drug companies including Merck of the US, Britain's Glaxo and Ciba-Geigy of Switzerland.

The progress in this direction has been the main reason for the bullish forecasts about the future market for biotech-based drugs, which some believe may jump to the region of \$10bn a year by the late 1990s.

Healthcare-related work in biotechnology has two distinct thrusts. The small biotech and the pharmaceuticals majors view these areas with differing degrees of enthusiasm.

The first thrust marked the initial phase of the biotech industry in the early 1980s and has featured mainly the small companies. It concerns scientific efforts to splice genetic fragments into bacteria and cell cultures to modify the way these organisms make proteins, natural biological materials essential to life.

In this fashion, the bacteria can be made to turn out large quantities of useful proteins like synthetic insulin and human-growth hormone which are difficult to make by extraction from humans or animals. These genetically engineered substances feature among the first biotechnology products, another of which is tissue plasminogen activator (TPA), a copy of another protein. It is used to treat heart-attack victims and is made by Genentech.

The second broad biotech push, more evident in the past three years, may turn out to have more profound implications than the straightforward idea of copying natural molecules. This is where the drug majors have shown the most interest.

The work is aimed at using insights from biotechnology, mainly concerning the mechanisms by which proteins and other natural materials interact in the body, to design new drugs of a kind not found in nature. It involves tailoring new drugs to work in a specific way, using an amalgam of biotechnology techniques and classical methods of chemical synthesis.

Customised, biotech-based drugs appeal to the big healthcare groups for several reasons.

● Selling copies of proteins present marketing problems. They are large, complex molecules which cannot be taken orally, but have to be injected, which is often messy and inconvenient. Most conventional pharmaceuticals companies are mainly inter-

Prospects undimmed by slow progress

ested in mass-market products for treating common ailments like heart disease and arthritis and so want to concentrate on small molecules which can be taken by mouth.

● Working with small molecules involves disciplines in which the big companies are already expert. They are good at the chemical synthesis which is a vital part of the work. They have also honed the development skills needed to bring such products to the market. Such companies also have the deep pockets and patience necessary in an industry where a new medicine commonly takes 10 years and \$100m to develop.

● Large proteins are much more difficult than small molecules to patent. That is either because they exist in nature or because rivals can, without too much trouble, invent a derivative which has essentially the same performance but which skirts round the patent protection.

These factors explain why many large drug companies are spending millions of dollars on biotechnology, largely integrating this with conventional research methods.

The work is centred on influencing what happens at specific protein sites called receptors. Biotechnology has given scientists fresh insights into how proteins and other biological

'This isn't Silicon Valley... There is not a venture capitalist who has not lost money in biotech'

organisms in the body bind with each other at these sites. With this knowledge, researchers think they can synthesise new small molecules which have on their surface molecular segments mimicking natural receptors.

The new substances may be able to influence or stop altogether natural processes in the body which are based on receptor binding and take place during the onset of conditions like cancer or heart disease.

The new biotechnology, based on locating a problem in a physiological interaction and designing something to alleviate it, has accelerated the shift in the medicines industry towards what is called directed drug discovery. It has found it harder in recent years to come up with new products by the conventional route of randomly testing thousands of synthetic chemicals for signs that they check disease, before modifying the most promising substances by synthesis.

As a result of the new approach, scientists in many big drug groups think they are in a better position to design therapies for a number of ill-

nesses including Alzheimer's disease, AIDS and the common cold.

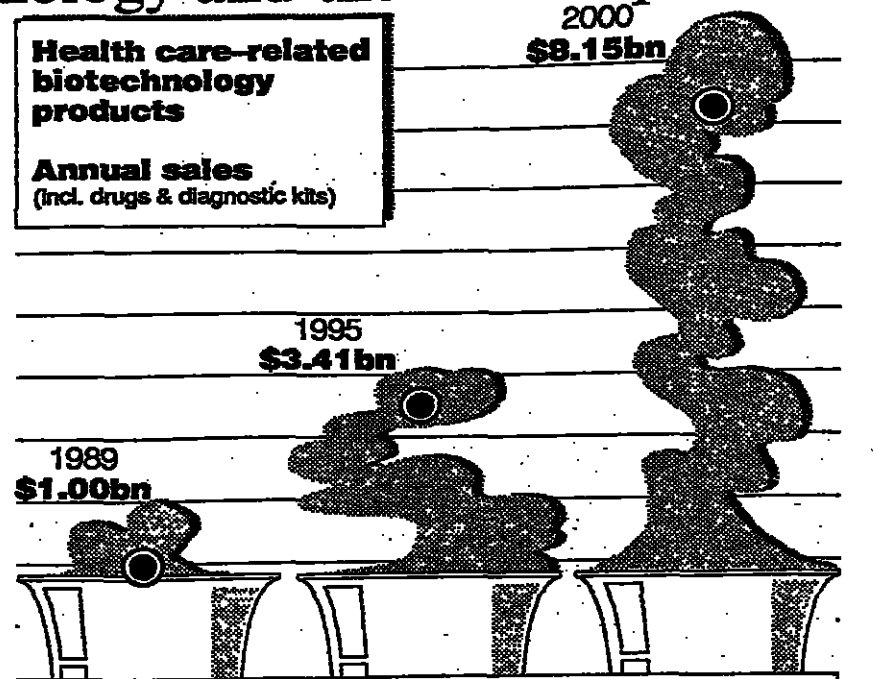
Merck, the world's biggest drug company, has in the past unleashed many new products from conventional drugs. It is now marketing a genetically engineered vaccine for hepatitis B and has made a ground-breaking contribution to the understanding of the AIDS virus which could lead to new therapies in the 1990s.

Mr Hugh D'Andrade, an executive vice-president and biotech champion at Schering-Plough, another big US drug group, says many of the most promising products passing through the industry's research pipelines are biotech-based. "In the 1980s you've got all the new products from biotech, and from traditional pharmaceuticals only a few things like Merck's Mevacor [a highly successful cholesterol treatment]. The balance is probably in biotech's favour. We went in heavily in 1981, but if we hadn't then, we'd have had to in 1983 or 1985. Traditional screening of organic compounds will still have a role: nature is parsimonious and a lot of the proteins that interact with receptors are found naturally. But we'll be screening them across receptors that have been cloned (genetically artificial)."

While the emphasis in discussion on biotechnology has swung towards the activities of the large, rich drug companies, the small groups still make plenty of impact. A case in point is Amgen, which in June received US Government permission to sell a drug called Eprex. This is a copy of erythropoietin, a protein made in the kidneys to stimulate the production of red blood cells. It will be used to combat anaemia in kidney patients.

The approval, the first in the biotech industry since 1987 when Genentech was allowed to start selling TPA, gave the business a psychological boost. But the small companies in the industry still make some onlookers uneasy, partly because of the patent problems - Amgen is facing a patent battle over Eprex with Genetics Institute, another US biotech company - and partly due to cultural questions. Some investors doubt whether the small groups can discipline themselves to develop and gain approval for their discoveries and shift them into conventional drug markets.

Mr Robert Kunze, a banker at Hambrecht & Quist in San Francisco and one of the biotech industry's leading venture capitalists, says: "There was a business analogy among the scientists round here that if you worked as a team and had a company cheer like Genentech, you'd go further than the regular drug companies. They were very naive and so were investors who thought this was another electronics industry. This isn't Silicon Valley: there are major technical, regulatory,



Company	Total revenue \$m	Net income \$m	Employees	Market capitalisation \$m
GENENTECH	334	2	1,700	180
BIOSENSORS	132	17	1,000	16
CELGEN	64	(23)	880	5
CENTOCOR	60	4	380	34
AMGEN	53	10	430	20
DIAG. PROD.	47	12	400	2
BIOGEN	30	(1)	250	2
GENETICS INST.	30	(1)	500	46
COLLAGEN	29	(1)	300	11
GENZYME	26	0	250	5

Source: Consulting Resources Corporation

patent and marketing risks. There is not a venture capitalist who has not lost money in biotech."

Against these gripes is the fact that many of the young biotech companies are already trying to turn themselves into mainstream pharmaceutical groups, licensing some of their ideas to bigger companies and also building up their own development expertise to get drugs on to the market using their own resources.

An example is Genentech, which has its own sales force for TPA and is working on a product which may have a big impact on AIDS. This is a drug called CD4, which acts as an AIDS "decoy." It is based on knowledge of how AIDS viruses bind via protein links to cells. It has in its outer layers precisely the correct protein gateway or "receptor" to attract the viruses; by flooding the body with CD4 they can be decoyed to other sites rather than attack body tissue.

Dr Stephen Sherwin of Genentech says: "As horrible as AIDS is, think just how horrible the outlook would be if we did not understand the molecular biology of retroviruses (the broad category of biological organisms to which the AIDS virus belongs)."

Cetus, another small US company, has developed a technique for amplifying tiny amounts of genetic code and making millions of copies. This "haystack of needles," as the company likes to describe its gene amplification technology, has already made possible a highly accurate test for the AIDS virus and a forensic test that

can identify a killer or rapist from the genetic information in hair or semen.

Mr Gerard Fairbrother, chief executive of Celtech, a leading UK biotech company, disagrees with the idea that the big companies are likely to gain the most from the technology. He thinks there will be plenty of niche drugs areas, based on proteins and targeted at specialist hospital sectors, which will give biotech groups good revenues. Also he says that proteins centred on natural products may turn out to be more useful than chemically synthesised drugs whose interactions with biological processes are not always well understood. "It takes a lot to beat nature," says Mr Fairbrother.

Some observers such as Mr D'Andrade believe that Wall Street is too gloomy about future markets for biotech drugs. Part of the problem was Wall Street's own exaggerated expectations for TPA, which caused a big splash when it was launched in 1987. "TPA was hardly a disappointment by most people's terms; its sales should top \$200m this year. But Wall Street was hoping for a \$1bn-a-year drug.

Over at Genentech, about whose future financial analysts have expressed some doubt over the past year, there is a confident mood. "If you'd arrived from another planet, and didn't have all these expectations, you'd be amazed by what we have achieved," says Mr Robert Swanson, the company's chief executive. "By the turn of the century, I promise you, every new drug will be touched in its development by biotechnology."

Mitterrand's secret game

The gentle art of golf has helped several state leaders to bear the burdens of their responsibilities. President Mitterrand, President of the French Republic, is no exception. Yet his fondness for the sport is beginning to provoke disloyal thoughts among some of his co-citizens, which is reasonable given the French taste for allowing their Presidents a certain leeway in their personal lives.

Word has been going round the country's most exclusive golf clubs, in the outer Parisian suburbs of St-Germain-en-Laye, St-Nom-la-Bretèche and La Bouille near Versailles, that the President has been enjoying certain privileges.

Those are the clubs where Mitterrand likes to play a round of golf every week or so with a friend, usually André Rousselet, chairman of Canal Plus, the French pay television channel.

The President likes to venture out when possible on the days when the clubs are closed for grass cutting and maintenance, usually Mondays and Tuesdays, so that he can get a nice clear run. The club's presidents have been happy to oblige, even on occasion offering to waive the green fee, or letting Mitterrand go to the front of the queue on open days.

Undoubtedly, this does not go down too well with the members, who are not - to put it mildly - the Socialist Party's strongest supporters. They have even taken to locking the doors against the President, or so it is said by some distinguished members of two of the clubs in question.

Mitterrand arrived at St-Germain-en-Laye a fortnight ago, as usual in the unmarked car used for these occasions. On finding the doors closed, he was obliged to change into his golfing kit on the back seat. The President's only leisure interest listed in Who's Who is table tennis.

OBSERVER

Reserve asset

Strange things happen when businessmen go on television. Elton Holland, the chairman of Pearl, put the case the other day against the group being taken over by the Australians, AMP. He did it from his office.

In response, he received a letter from Christopher Weston, chairman and chief executive of Phillips, the fine arts auctioneers. "I realise that you have got plenty on your plate at present," the letter went, "but noticed in a television interview that there was an extraordinarily fine looking commode in the office from which you were speaking."

Weston went on to offer a valuation of the commode for insurance purposes, and indeed of any other fine items that the Pearl may have.

Tory audience

One of the people who best understands the Tory Party Conference is Michael Heseltine, who, being out of office, no longer makes his speeches from the platform. He can sometimes be found observing the conference from all sorts of obscure positions. "The people out there," he will say, "they're trying to tell us something. The thing is to find out what it is."

And it is quite true that the conference is not as predictable as is often suggested. There was an occasion a few years ago when there was a sudden outbreak of anti-Americanism as a speaker was cheered for referring to "that nauseating Yank, Teddy Kennedy." You can never quite tell how the floor will react to anything, except perhaps to the Leader. Nigel Lawson has never treated the annual outing with



"At least Stalin didn't make us go to fringe meetings."

Heseltine's seriousness. He was surprised once to be given a standing ovation for a rather low key speech when he was Secretary of State for Energy. More recently, he has been cheered as the Chancellor who won the election and for throwing in a few good jokes.

How he will go down when he speaks on Thursday is anyone's guess, for he is likely to be criticised if the pound is falling and equally under attack if interest rates have gone up again. There is not a lot new that he can say. The eyes should be on the audience rather than the speaker.

Price of music

Claudio Abbado was a surprise choice for Berlin. Most observers thought that he was content to remain in Vienna where his contract gave him a guaranteed number of new opera productions as well as concerts with the Vienna Philharmonic. It was also thought that his

rather listless rehearsing style was out of keeping with the North German mentality that still pervades the Berlin Philharmonic. Abbado's strengths are during the concerts, not before.

He was the compromise candidate. He is less autocratic than Riccardo Muti and can speak German. He is easier to work with than the American, Carlos Kleiber, and unlike the other American contender, James Levine, Abbado is equally at home with symphonies and opera.

The contract, however, is not quite complete. Berlin always had Herbert von Karajan on the cheap. He conducted his agreed minimum number of concerts each season, but made the bulk of his money from recording and video work, and from moving around the world. No successor will be allowed the same privileges.

Abbado is likely to have to spend at least 12 weeks a year with the orchestra, and his initial contract will be probably for five years. For that, he will expect to be highly paid, in view of the other work he will be giving up.

There may be a question of politics here. Will the Social Democratic-Green coalition in Berlin agree to pay up? Walter Momper, the Social Democrat Governing Mayor, is a regular concert-goer and there is much to be said for the Berlin Philharmonic as a kind of cultural flagship for the city. Still, the Greens may be less happy to pay international rates. The ultimate paymaster of the orchestra is the Berlin Senate.

Rare trip

The Nottinghamshire Chamber of Commerce and Industry is mounting another trade mission to Iraq, its application form states: "As you will probably know, participation in a Mission to Iraq and usually provides exemption from the compulsory AIDS test."

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LETTERS

Clarity in foreign acquisitions rules in US

From Messrs Joel F. Brenner and Irving M. Pollack. Sir, Frank Cooper ("When foreign owners surrender control...")

either in a defence company or in a company with only a marginal interest in defence work. These cases are unlikely to disturb the regulators...

however, even substantial national security concerns have been dealt with leniently by the regulators in ways that satisfy overseas management.

programme and avoid costly unsuccessful acquisition attempts. These improvements would be particularly welcome since some US firms can be expected to acquire a defence subsidiary for the sole purpose of making a foreign take-over more difficult.

Advertising's effect on drinking

From Mr P. Mitchell. Sir, Christopher Parkes's recent research on advertising ("The influence of advertising...")

on under-age drinking. It uses a very limited, one-time sample of 150 youngsters from one Scottish city. Hardly a representative or in-depth analysis.

Justice requires that more than one person (a ministry inspector) determine appeals. Perhaps we should appoint local planning committees to decide all appeals unless they are of national significance...

Interest rates and sovereignty

From Mr Stanley Crossick. Sir, The UK Government argues that participation in monetary union as proposed by the EC is a derogation of sovereignty.

Working week

From Colonel H.A.J. Jordan. Sir, There is more than a little irony in the figure of 34,000 threatened job losses which Mr Gavin Laird quotes in the context of Ferranti and his accusation of media double standards...

Current account deficits

From Professor M. Artis. Sir, It is not Professor Thirlwall (Letters, October 4) allowing himself to be sidetracked on the issue of current account deficits? In a world of highly integrated capital market financing, such deficits are not likely to be a problem for developed countries...

Leather goods in the UK

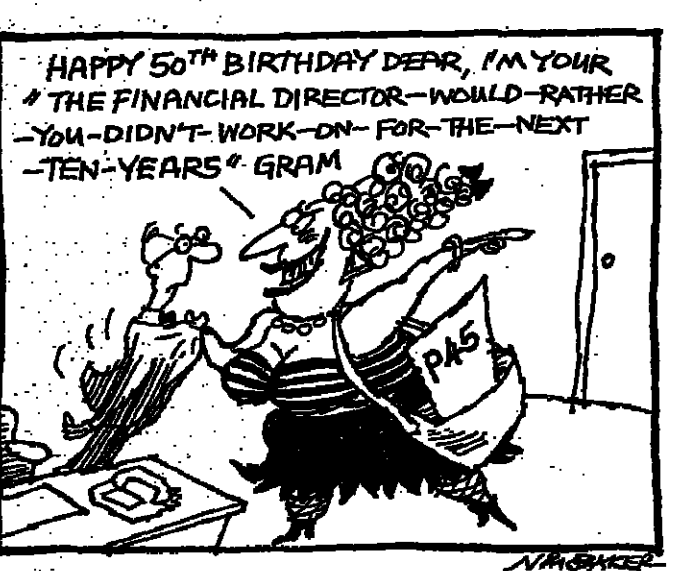
From Mr J.T. Henwood. Sir, Having survived an import penetration level of over 90 per cent in the supply of small leather goods, handbags and belts, the British leather goods manufacturing industry should now be looking forward to a period of consolidation in which opportunities can be created for increasing market share in the UK.

Shoes in East Germany

From Mr J.C. Foster. Sir, David Goodhart's article "A step ahead of other manufacturers" (FT Survey, October 3) refers to the agreement I signed at the Leipzig fair in my capacity as managing director of United Machinery Group Ltd (UMG).

The pensions debate: when to retire and how much it will cost

From Mr Alan Smallbone. Sir, Your leading article ("A sexist policy on pensions," October 2) while referring to the "social reality of de facto earlier retirement ages," makes only oblique reference to the reasons for this under the description "corporate redundancy schemes."



question or up, but surely this question was effectively answered earlier this year when it was enacted that the state pension would no longer be a "retirement" one, but become an "age" one, divorced from retirement?

36 Orchard Coombe, Whitechurch Hill, Reading, Berks. From Mr Stephen Wynn. Sir, Your leader concludes "the male of the species deserves a better deal."

FOREIGN AFFAIRS

Time to dust off the relics

Robert Mauthner argues for an urgent reappraisal of the Commonwealth

The Commonwealth, that quarrelsome hotch-potch of nearly 50 states, linked mainly by a common British colonial past and language, will be gathering for the biennial jamb between its leaders in Kuala Lumpur next week, wondering, as usual, where it is going.

guard its trading links and continue to exercise considerable influence on its former dominions and colonies, but its status in the world at large would be enhanced by its leadership of such a large and diverse group of nations.

'The Commonwealth begins to acquire almost the status of a Grade One listed building'

wealth - Britain was already making formal moves to join the European Community. Though, thanks to the late President de Gaulle of France, it took another decade before Britain could force the door of the EC, the writing was on the wall.

least equally important - the threat to the environment, famine and drought in Africa and Asia, the growing world refugee problem, human rights and political freedom - which have been neglected by the Commonwealth while Britain and the other members squabbled over South Africa.

Twenty-five years ago...

Mods and rockers fought on the beach at Clacton... John Steed and Mrs. Peel joined forces against evil as 'The Avengers'... West Ham froze out Preston North End to take the FA Cup... Treasury officials defended the pound by borrowing £1,080 million...

...and Britain announced the first licence awards for North Sea oil and gas. Times change. Occasionally for the better. Today, the pound is holding its own. And the offshore energy industry has grown to encompass a workforce of nearly 100,000.



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FINANCIAL TIMES

Tuesday October 10 1989

PLUMB CENTER WOLSELEY The name behind the name.

REFORMERS TAKE OVER PARTY PRAESIDIUM

Hungarian Socialists embrace democracy

By John Lloyd and Judy Dempsey in Budapest

THE HUNGARIAN Socialist Party last night completed its formal transformation from a Communist party into a western-style socialist party committed to pluralism.

Earlier in the day, the Congress had voted for an economic programme which commits the party to a social market policy - a welfare state coexisting with a competitive market economy.

and a radical among the reformers, crossed swords on whether or not some link between the party and the state be preserved.

Communists, must give an account of the corruption alleged to be endemic in its property and other holdings and must decide whether or not it will retain its branches in enterprises.

EC takes step nearer pact on excise taxes

By David Buchan in Luxembourg

FINANCE MINISTERS of the 12 European Community states yesterday agreed on a means of indirect tax collection to allow the abolition of fiscal frontier checks inside the Community from the start of 1993.

Brussels argues that the governments are simply replacing a single set of controls (at frontiers) with two sets of controls (in exporting and importing countries) which would have to be elaborately cross-checked to prevent fraud.

Mr Peter Lilley, economic secretary to the UK Treasury, said countries had preferred "not to commit themselves to uproot" a new system designed to take effect by January 1 1993.

loss of trade to neighbouring countries with lower VAT rates. Ministers, however, appeared near agreement on a package of measures designed to minimise the risk that tax-avoiders will abuse next year's generalised lifting of EC exchange controls by shifting money around the Community.

Rover plans luxury car for US markets

By John Griffiths in London

ROVER GROUP, the British motor manufacturer, is developing a high-performance, luxury car aimed primarily at North American markets.

The new car, to be launched in 1992, is being designed independently of Honda - the Japanese car company which is soon to take a 20 per cent stake in Rover - is aimed at taking Rover deeper into the prestige car market currently dominated by specialist manufacturers such as BMW of West Germany.

European accounting standards proposed

By David Waller in London

THE IDEA of establishing a Europe-wide mechanism for setting accounting standards has been suggested by the UK's three main accounting bodies.

The proposals undermine the UK's move towards a new standards regime as recommended by the Dearing committee last year - which envisages the setting up of four new accountancy bodies in the UK - and that they fly in the face of the profession's official stance on the harmonisation of international accounting standards.

had the full support of the big firms. From the international perspective, the profession's official line is that it favours harmonisation of standards on a global but not a regional basis.

Committee. The pan-European body envisaged in the document would seek to promulgate international standards, with monitoring and enforcement left to the national bodies.

UK proposes merger controls compromise

By Guy de Jongheres in London and Lucy Kellaway in Brussels

BRITAIN IS to propose a "two-tier" system of European Community merger control in an effort to avert stalemate over the European Commission's long-standing demand for power to vet large deals in advance.

The British Government believes that a two-tier system offers the only hope of achieving the required unanimous agreement on EC merger control policy.

Other issues to be considered by today's council include: Whether national authorities can block a merger already approved by Brussels.

nity gross national product, make a plan for a four-year review of EC merger control policy subject to unanimous approval, rather than the qualified majority voting.

WORLD WEATHER table with columns for location, temperature, and weather conditions.

Sterling falls to below DM3

Officials stressed that last week's rise in interest rates had amounted to a significant tightening in monetary conditions. The Government did not have a specific target for the pound although it desired a firm exchange rate even after yesterday's falls, they said.

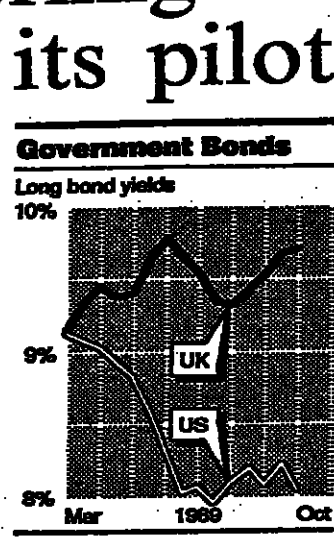
pointed out that a lot of overseas investors had put money in UK capital markets on the belief that the pound would not be allowed to fall below DM3. This was no longer the case.

The current weakness in the pound started two weeks ago when the Government said Britain had a £2bn current account deficit in August, taking the cumulative deficit for the year so far to £13.7bn.

THE TEN COLUMN

Sterling drops its pilot

The markets may now be quite unclear on the Government's policy on sterling, but they are in no doubt that it has dramatically changed.



Jaguar's articles, it might be less trouble to buy through the market. And above all, if GM is not in a position to protect its commercial arrangements through poison pills, its only long-term safeguard against general action from Ford is to own Jaguar outright.

Mortgage rates

In a rather perverse way, the one percentage point rise in the Halifax's mortgage rate is good news for borrowers. It shows that the world's biggest mortgage lender is continuing to subsidise borrowers at the expense of its investors, while the speed with which it has set its new rate means that most other societies will follow its lead.

Saatchi & Saatchi

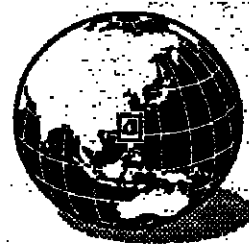
Given the number of fires in which Mr Silvio Berlusconi has been seen, it is tempting to play down his appearance as a shareholder in Saatchi. Shortly before he spent around £5m on Saatchi shares, he had put three times that into acquiring 2 per cent of Bouygues, the French construction and television conglomerate; it may just be Anglo-Saxon chauvinism that finds the Saatchi purchase more interesting.

Eurotunnel

It is to Eurotunnel's credit that it did not fall prey to the temptation of vastly bumping up its revenue forecasts yesterday, despite the depressing news last week about the cost over-runs. There is so much that is incalculable about the response of the ferry operators and the airlines, the prospects for the high-speed rail link, the extent to which, like the M25, the tunnel creates its own demand - that forecasts for the year 2003 are virtually science fiction.

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FINANCIAL TIMES SURVEY



Taiwan is confident as it prepares for its first general election since the ending of martial law. The

question is whether there is enough respect for democracy and traditional values to absorb the tensions released by new political freedom, writes John Elliott

Challenge of growth

TAIWAN is an enigma. It is not generally recognised as a sovereign state but, as the world's 18th largest trading nation, it is forcing itself into the international arena. Taipei's stock exchange is sometimes the busiest in the world, but its casino-like speculation is based on only 177 stocks and it does not play a significant role in funding the economy.

Against this, critics point to the appreciation in the value of the New Taiwan dollar by about 50 per cent in the past four years against the US dollar and an economy which, they say, is overheated, with worrying signs of growth running out of control.

But such a catastrophe does not seem imminent on this island of only 20m people who have generated foreign exchange reserves of around \$75bn and who enjoy an annual per capita income exceeding the official figure of about \$7,000.

The government pursues an 'unreal' foreign policy by officially calling Taiwan the Republic of China and by claiming sovereignty over mainland China, which in turn regards Taiwan as a recalcitrant province. There are no official dealings with Peking,

yet two-way trade last year totalled at least \$2.5bn, and substantial direct investment has been made on the mainland. Tens of thousands of Taiwanese were visiting the mainland every month over last year, but this exchange has been stanchied by the events of June 4 in Tiananmen Square.

Now Taiwan is about to hold its first ever democratic general election. But the result cannot oust the ruling Kuo mintang (KMT) government because about 190 elder legislators elected in 1947 on the Chinese mainland cling to power, perpetuating their dream that Peking is an illegal regime.

For such a place to be emerging, not only as one of the region's economic tigers, but also as a highly adaptable nation, is one of the Orient's latest great enigmas. The question now is whether there is sufficient flexibility, patience, and respect for democratic authority to sustain the economic growth - or whether Taiwan will fall back into the familiar Asian cycle of growing social unrest, riots, political repression, and even military dictatorship.

Located about 100 miles off the mainland of China, Taiwan's future is complicated



Two faces of economic growth: a skilled and reliable workforce; and traffic congestion in Taipei, where the air is thick with poisonous exhaust fumes

TAIWAN

by its relationship with Peking. Forty years ago, in May 1949, Generalissimo Chiang Kai-shek founded the modern Taiwan when he fled there from the mainland after his nationalist government had been defeated by the Communists. With him went between 1.5m and 2m followers. They were unwillingly accepted by a population which had been happier with its previous Japanese rulers.

Peking wants the island to accept its sovereignty in the same way that Hong Kong and Macao are returning to its fold in 1997 and 1999. Taiwan has no intention of accepting such arrangements under the present Peking regime, despite its Chinese roots, and this inevitably causes tensions. Nevertheless Taiwan has emerged from the trauma of China's political upheavals in June with far more self-confidence than Hong Kong. Unlike the situation in the British colony, there is no international treaty putting a time limit on its present state of prosperous *de facto* independence.

Talking about reunification is like going to church on Sunday just to keep the faith. There is a lot of talk but no movement," said one foreign policy expert. "China sees reunification as its goal... but

Taiwan sees democracy as the goal."

Mr Nelson Chang, 38-year-old president of Chia Hsin Corporation, a leading private sector company, is not untypical when he says: "I am Chinese and I want to see one China - but not within my lifetime. Before that the mainland would not be ready in terms of a free economy and political system."

Taiwan's people basically want to keep Peking at arms length so that they can remain free to develop their prosperity. Although 17m of the 20m population have come from, or are descended from, mainland families, two other cultures have played an important role in blending the old Chinese Confucianism into an economically successful ethic for a people that now thinks in US dollars.

One came with the Japanese who ruled from 1895 to 1945. Japanese colonial buildings in the capital of Taipei still proudly house important government institutions, including the Presidential Palace. The other culture is from the US which has actively supported Taiwan for the past 40 years and whose universities have educated and spawned the latest generation of top leaders.

For most of the past 40 years Taiwan has been ruled by an ageing KMT leadership under a martial law regime. Free enterprise was however encouraged to such an extent that economic growth has averaged 8.85 per cent a year since the early 1960s.

But the spectacular economic breakthrough has only come in the past two or three years when the proceeds of years of successful export growth generated massive cash reserves. Little money flowed out of Taiwan, initially because of the government's protectionist policies, and more recently because of the strength of the Taiwan dollar.

The surplus cash formed the basis for rampant speculation on the stock exchange and property market, fuelled by underground finance companies which flourished because of out-dated government financial controls. The cost of living has soared and Taipei property prices have doubled within a year or two, putting new homes out of the reach of young married couples. Little money has gone into industrial development.

Rapid political and social changes began three years ago when the late president, Mr Chiang Ching-kuo, son of

Chiang Kai-shek, began a liberalisation process. They have been continued by Mr Lee Teng-bui, who succeeded him when he died early last year, and by a new prime minister, Mr Lee Huan, who was appointed in May.

Martial law was lifted two years ago, permitting new political freedom and releasing forces which led to street protests, a rash of labour unrest, and a new militant concern about the environment.

Compounding the social changes, there has been a rapidly rising crime rate. There has also been a decline in the population's traditional work ethic as people have found it financially more rewarding to speculate on the stock and property markets.

"The most worrisome thing is that we have had this political democratisation, economic liberalisation and the social opening up, all coming to a confluence in a very brief period of two years," says Mr Fredrick Chien, Taiwan's top economic planner. "Therefore people are really enjoying this new found freedom and everybody would like to practice it to the maximum. That is what worries me. But I hope this will be temporary."

"There is a risk that one day

soon, people will wake up and realise that they have worked hard for years and achieved nothing in real terms," says a foreign banker.

Compounding the problem is a lack of firm direction by the government whose ministers and top civil servants have not yet adjusted to the new open political system where opposition parties and other interest groups wield influence. This has been especially evident in the handling of underground finance companies and the stock market, where policies have been announced, then watered down. The government has also been less than firm on labour, the environment and other problem areas.

Some people view this as a sign that the government has lost control. Some even speculate about a reassertion of martial law by the still powerful and conservative military establishment, headed by 69-year-old General Han Pei-tsun, the veteran chief of general staff. Such a move could find sympathisers among the elders of the KMT, who are coming under increasing pressure to retire.

A more plausible scenario suggests that the government is having problems administering an open system with old-

CONTENTS

- Foreign affairs; Relations with mainland China; Politics 2
- Economy; Trade 3
- Banking; Stock market; Underground investments 4
- High-tech sector; Overseas investment; ICI in Taiwan 5
- Environment; Labour relations; Profits; Dr Fredrick Chien 6

KEY FACTS

Population: 20m
Area: 13,900 sq miles (64% forest)
Population density: 553 persons/sq km
Population growth: 1.2%
Currency: \$1 = NT\$25.5
\$1 = NT\$41.50 (Oct 1989)
Foreign reserves: \$74.5bn (Oct 1989)
GNP: \$119.7bn
GNP growth: 7.3%
Total two-way trade: \$110bn
Exports: 55.7% of GNP
Imports: 45.3% of GNP
Leading trading partners: US, Japan
Inflation: 3.5% (Sept 1989)
Official Language: Mandarin Chinese
Major cities: Taipei, capital; Kaohsiung
All data 1988 unless otherwise stated

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TAIWAN 2

John Elliott on how Peking's historic claims cloud any sense of independence enjoyed by the island

Overshadowed by the China syndrome

TAIWAN looks and feels like an independent country. It has a parliament, a president and prime minister, and its own currency, army and police. It also displays the self-confidence of a thriving self-sufficient nation.

Yet it is not independent, nor does it want to be, not in the immediate future - nor does it admit allegiance to any other country. But it enjoys an assumed but undeclared independence, and it has recently begun actively to use its growing international economic importance to improve its diplomatic recognition which at present is extremely limited.

The situation is complex because of the relationship with mainland China. The Nationalist government, which has ruled Taiwan for the past 40 years, has never recognised Peking's Communist regime.

It still formally insists it is the lawful government of the entire Republic of China and that it wants to reunite with the mainland under democratic rule.

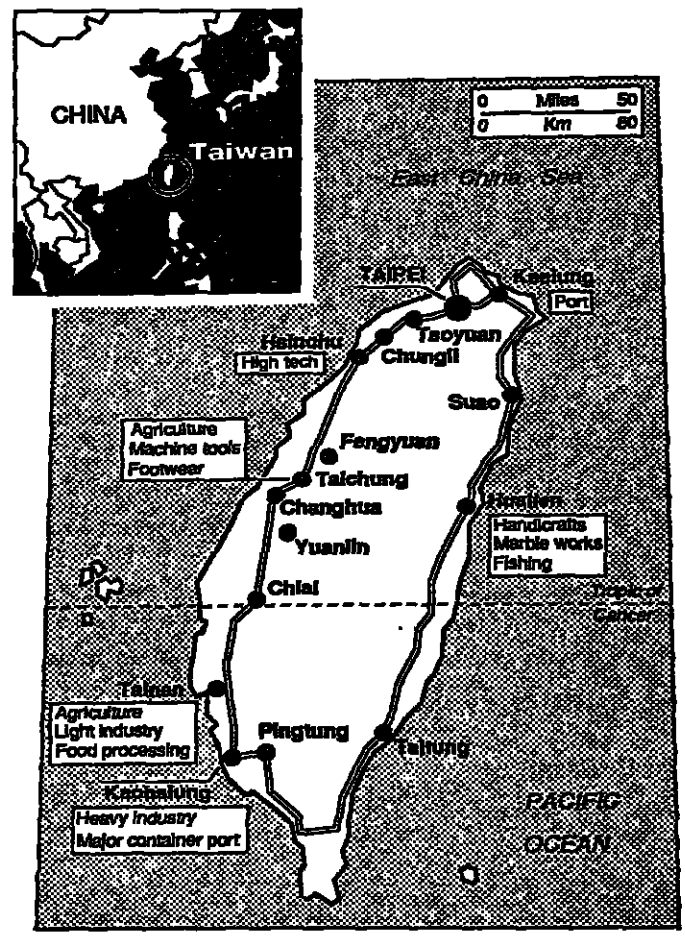
But it knows most of the population are happy with the present de facto independence and it has accepted in recent years that reunification should be a long term target to be achieved by persuasion rather than military action.

At the same time, Peking claims sovereignty over Taiwan which it regards as a recalcitrant province. It wants Taiwan to follow Hong Kong back into formal acceptance of its rule under a system known as 'one country two systems'.

With the rest of the world, Taiwan has to get on as best it can. It has what it calls "substantive relations" with 123 countries including the US, Japan, Australia and the UK.

The ruling Kuomintang Party also builds extensive contacts with foreign political groups, like Britain's Conservative Party, as a cover for government relations which cannot be conducted openly.

"We have been stressing that we want to improve our relations with most countries, and we do not mind how they conduct their relations with Peking, although unfortunately Peking tries to merge the two issues together," says Mr Chien Jen Chen, a vice minister for foreign affairs, explaining how the Government has softened its stance in an attempt to achieve wider recognition through a policy of "diplomacy with flexibility or pragmatism."



Only 24 countries, mostly small nations in the Caribbean and Central and South America, formally recognise Taiwan, and Peking does not allow dual recognition. Three months ago Peking cancelled its recognition of Grenada 19 days after the island announced that it was establishing formal diplomatic relations with Taiwan.

The major countries with "substantive relations" have an increasing number of direct trade and cultural offices in Taipei, which process visas and form the capital's underground diplomatic community. They all avoid anything resembling normal open diplomacy.

The head of a new UK visa office, which opened in June, formally retired from the British foreign service to take the job. Like other countries' officials, he clears visa approvals with London each day, then "processes" them with a London stamp, instead of issuing them himself.

Illustrating the flexible diplomacy, he operates under the banner of a long-standing Anglo-Taiwan Trade Committee office. He shares premises with a new Anglo-Taiwan Education Centre, funded by British universities and local UK companies, which helps students find college places.

Taiwan is a member of only 10 inter-governmental organisations including the Asian Development Bank. Mr Chen says that the number is small mainly because of Peking's blocking. Taiwan hopes soon to apply for membership of the GATT, although Peking has made it clear that it wants to be admitted first.

Peking also tries to force Taiwan to adopt names that make the island sound like a province of the mainland. In sports contests it is known as Chinese Taipei, which it accepts, but it was not happy with Taipei, China, which it had to use in the Asian Development Bank. It would prefer a more independent identity in inter-governmental organisations.

At the centre of all this activity is Taiwan's emergence as an important international economic force with foreign reserves of around \$40bn and an ambitious, energetic industrial elite anxious to expand abroad. To back this up, Taiwan has launched a \$1bn Overseas Economic Co-operation and Development Fund which may be expanded to between \$3bn and \$5bn in the next five years. So far \$100m has been committed to nine projects including \$5m for Costa Rica to build an export processing zone.

THE THREE CARDINAL RULES

TAIWAN has a rigid policy of "three nos" for its dealings with mainland China. In order to "safeguard its national interests and security," the Government "refuses to negotiate, compromise or make contact with the Chinese Communist regime," says government spokesman. "The three nos are designed to keep freedom in and communism out of Taiwan."

But around the edges of that policy, the Government has been introducing increasing flexibility for access by Taiwanese people to the mainland, although it is less relaxed about letting mainland people into its territory. Until the Tiananmen Square crisis in June, this was leading to improved, though indirect, relations between Taipei and Peking. Its Student Exchange and Finance Minister, was the first member of the government to go to the mainland when she attended an Asian Development Bank conference in Peking in May.

POLITICS

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Poll test for the ruling KMT



President Lee Teng-hui and Prime Minister Lee Huan

MR LIN Zheng Jie stood with his supporters by the door of a large assembly hall in central Taipei, shaking hands as people filed past him into a rather low-key political rally. Pop singers sang, activists delivered speeches, and actors performed skits all against the ruling Kuomintang (KMT) political party and in support of the Democratic Progressive Party which forms the country's main opposition.

many of them are loth to go before the new elections and others, who dominate a separate National Assembly, are clinging on till next March when the assembly will carry out its function as an electoral college for choosing the president. (It is assumed that the reformist Mr Lee Teng-hui will be re-elected.)

This is the new-style of open Taiwan politics as the country limbers up for the first significant general election in its 40-year history. "These rallies were more emotional and vibrant before martial law was lifted in 1987 when they were underground and illegal," commented Mr Antonio Chiang, a leading opposition figure and a magazine editor. But the fact that the DPP had managed to obtain a large government-run school hall for its rally showed that it had developed some political muscle in its two years of lawful existence.

The DPP, which has been an uneasy coalition since it was founded in 1986 out of long-standing opposition groupings, is split. A moderate Formosa Faction wants gradual moves towards independence, but is basically interested in speeding up political reforms. A younger and more militant New Tide believes that independence is the prime issue and that it should be declared unilaterally, challenging Peking to carry out its threat to invade.

The elections take place across the country on December 2 for more than 100 seats in the Legislative Yuan, or parliament, and for the posts of mayor in more than 20 provincial cities. These elections are important for several reasons. They are the first to be held both since martial law was lifted and since the current Taiwan-born president, Mr Lee Teng-hui, succeeded the late Mr Chiang Ching-kuo. They will not change the government - the KMT is assured of victory. But they will provide the opposition with its first chance since it was legalised to demonstrate its public support at the polls. The DPP says it hopes to win 30-35 per cent of the popular vote, compared with the last election in 1986 when its candidates stood illegally and won 23 per cent. The DPP also hopes to win between five and 10 contests for the posts of mayor, which are important in the running of the country.

The impact that the DPP can have in the Legislative Yuan is muted because of the continued existence of about 190 elders who were elected in mainland China in 1947 and hold their seats till they retire or die. Together with elected KMT members, they guarantee the ruling party continues in power. Under political reforms started with the lifting of martial law, these elders should now all be retiring. Legislation to enable this to happen was passed earlier this year. But

that the KMT clings to its formal policy of being the ruling party for the whole of China and wants to maintain the present tightrope relationship with Peking. The DPP, which has been an uneasy coalition since it was founded in 1986 out of long-standing opposition groupings, is split. A moderate Formosa Faction wants gradual moves towards independence, but is basically interested in speeding up political reforms. A younger and more militant New Tide believes that independence is the prime issue and that it should be declared unilaterally, challenging Peking to carry out its threat to invade. In the election, independence is not expected to be a dominant subject. It will however be notably debated, despite the fact that its advocacy is illegal. More immediate issues are expected to be social and economic problems such as law and order and a worsening crime rate, pollution and the environment, the price and scarcity of housing, and traffic congestion.

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TAIWAN 3

Alison Maitland on the costs of an extraordinary economic record
Unpalatable price of success

A WHITE "Royal Limousine" Cadillac with gold trimmings does a U-turn in Taipei's fashionable Tunhua North Road and pulls into the curb, depositing a slightly plump young man from one of its six doors. Hardly anyone gives a second glance. A few yards further down, the AsiaWorld Plaza Hotel is offering one night's stay in its Genchis Khan Presidential Suite for a mere \$5,500.

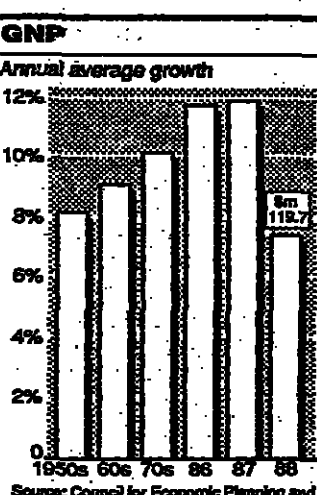
Tales of outstanding wealth are legion in Taiwan after 27 years of economic growth averaging 9 per cent a year. One of the country's richest men is reported to keep piles of US dollars and personal notes in the transparent base of a lavatory - whether for security or show is not entirely clear. Per capita income has more than doubled in the past four years to about \$7,000. But the country's riches, the product of a tireless export drive, have created serious imbalances in the economy. Investors with idle savings have been unwilling to put them into the antiquated state banks, which have traditionally offered paltry interest rates, so investment has found its way into a vast underground financial system which has sent the stock and real estate markets out of control. Many ordinary people can no longer afford to buy a home unless they play the markets successfully. A state bank employee on a salary of \$770,000 a month would not earn enough in a lifetime to buy one of the new two-bedroom apartments selling for NT\$400m in eastern Taipei.

Capital is also beginning to flow out of Taiwan at a rate that is raising official eyebrows. The country registered its first balance of payments deficit for nine years in the second quarter, when net capital outflow reached about \$2.5bn. Part of this is going into short-term private investment abroad. Some is also moving into manufacturing plants in south-east Asia as Taiwan's industry adjusts to labour costs that are rising at 20 per cent a year and to a 50 per cent appreciation in the Taiwan dollar over the next four years. Efforts to reduce the dependence on external trade, which showed a surplus of \$9.4bn in the first eight months of this year, have helped to slow economic growth. Officials expect gross national product to grow at 7 per cent this year after 7.3 per cent in 1988.

CONTRIBUTION TO GNP BY SECTOR (Percentage)

	1985	2000
AGRICULTURE	6.0	3.0
INDUSTRY	49.7	46.5
Mining	0.5	0.3
Manufacturing	40.3	38.9
Construction	4.2	3.8
Public utilities	4.1	3.7
SERVICES	44.3	50.5
Transportation/communications	6.1	11.0
Wholesale and retail trade	13.9	15.4
Banking, insurance etc	3.6	4.5
Public and housing services	16.2	13.5
Other services	4.5	6.1

Source: Council for Economic Planning and Development



economic growth. Officials expect gross national product to grow at 7 per cent this year after 7.3 per cent in 1988. This Government wants growth to remain high, averaging 6.5 per cent a year to 2000, when per capita income is projected to reach \$13,400. But loss of export competitiveness, a

accomplishment of 14 major construction projects," says Dr Frederick Chien, chairman of the Council for Economic Planning and Development. This six-year programme, started in 1984, includes an underground railway for Taipei, better highways and new reservoirs, hospitals and power stations. The Government plans to spend T\$2 trillion (million million) on improved transport facilities alone by 2000. "We hope this concentration of public investment would bring about an increase in private investment," says Dr Chien. At the same time, there are plans to stimulate consumption by providing comprehensive health insurance for the whole population by 1995 and by increasing recreational facilities. A new town is planned on the outskirts of Taipei to relieve congestion and pollution in the capital. However, projects are running into delays. The 14 infrastructure projects as a whole are about 20 per cent short of labour. Land is difficult to

Tales of outstanding wealth are legion in Taiwan after 27 years of economic growth averaging 9 per cent a year. Yet many ordinary people are still unable to afford a modest home unless they play the markets successfully

lack of productive investment and growing signs of social dislocation have all emphasised the need to stimulate domestic demand. "We would like to increase public investment, and we are currently pushing hard for the

state companies and banks. First, however, the Legislative Yuan (parliament) must pass a special statute - because privatisation runs counter to many of Taiwan's existing laws - and that could take time. Financial reforms are emerging, although the pace of change is not always swift. A credit squeeze earlier this year brought money supply growth down to 6.8 per cent at the end of July from 32 per cent a year earlier.

The Taiwan dollar has been relatively stable recently, since an 8 per cent surge against the US currency in April at the time of trade talks between Taipei and Washington. This stability is cited as another reason for the large outflow of capital, as hot money previously attracted by an appreciating currency retreats. Foreign reserves are the world's largest after Japan, measuring \$74.8bn in early October - enough to cover 13 to 14 months' imports. They are expected to hit \$76bn by the end of the year, compared with \$73.9bn at the close of 1988 and a record \$76.7bn in December 1987.

The Government is preoccupied with inflation, and has managed to bring the consumer price index down to about 3.5 per cent from a high this year of 5 per cent. But this gives no impression of wider inflation, including wages and housing costs, which unofficial estimates put at between 8 per cent and 20 per cent. Over the longer term, Taiwan is having mixed success with its economic restructuring. Exports have grown unexpectedly fast this year, but the goal is still to reduce the surplus to 4 per cent of GNP by 1992 from 10 per cent last year.

The savings rate is falling, from 33.5 per cent of GNP in 1987 to an estimated 31 per cent this year. But the growth rate of capital investment is also slowing as people spend more on private consumption. Taiwan's economy is at a crossroads, grappling with structural problems that are a direct result of its past achievements. Its future strength will depend on channeling the new-found wealth into investment that will improve the quality of life and make best use of its skilled and technologically able workforce.

IN TYPICALLY flexible fashion, Taiwan is managing to keep its exports buoyant while responding both to rising domestic costs and pressure from abroad to liberalise imports. The secret of the world's 13th biggest trading nation has been to find new markets and to shift exports away from cheap caddy toys and shoes to sophisticated computer goods.

Change has been forced on Taiwan by US pressure to reduce its huge trade surplus. The Taiwan dollar has surged by about 55 per cent against the US currency since 1985 at a high cost to local exporters. Low cost manufacturing is moving to cheaper sites in Thailand, Malaysia and the Philippines, while Taiwan itself switches to high value added production. In the first eight months of this year, electrical and electronic goods accounted for 32.4 per cent of exports, while toys and sports goods represented just 4.5 per cent. At the same time, Taiwan has lowered its import barriers. The average effective tariff rate has dropped from 7.5 per cent two years ago to about 5 per cent now and is due to reach 3.5 per cent in 1992 - bringing it into line with the world's industrial nations.

A better balance between import and export growth is not materialising overnight, however. Labour unrest in South Korea and turmoil in mainland China have unexpectedly boosted exports this year, as US and Japanese orders have switched to Taiwan. Some orders have gone to Taiwan's lower cost production facilities in south-east Asia, but that has only helped exports of intermediate products from Taiwan to its neighbours. The result has been a 10.7 per cent rise in Taiwan's exports in the first eight months, against an increase in imports of only 4.8 per cent.

Yet there has been an improvement in the problem of the surplus, most of which is with the US. On the face of it, Taiwan's surplus with the US rose 25.5 per cent in the first eight months. But last year a reduction in the surplus from \$16bn to \$10bn was helped by nearly \$3bn worth of gold imports. This year, as a

TRADE
Under Washington's eye

Taiwan trade 1988

Exports

Electronic products	13,018.2
Textile products	8,572.1
Shoes	3,588.5
Electrical MC & apparatus	3,507.7
Metals	3,488.7
Toys & sports goods	3,382.8
Machinery	3,188.0
Plastic products	2,939.9
Transportation equipment	2,518.5
Wooden products	2,119.0
Basic metals	928.5
Optical instruments	754.1
Ceramic products	677.0

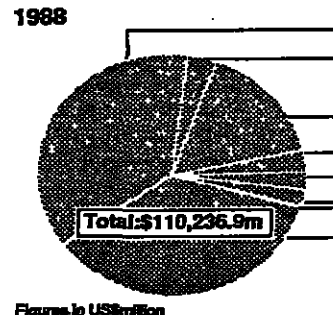
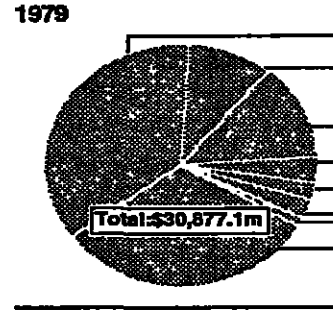
Figures in US\$ billion

Imports

Electronic products	6,844.4
Machinery	4,975.7
Chemicals	4,905.9
Steel	3,301.7
Transportation equipment	2,821.1
Crude petroleum	2,212.4
Metals	1,576.3
Electrical MC & apparatus	1,842.6
Food, beverages & tobacco	1,825.4
Paper, pulp	950.8
Refined petroleum products	839.9
Medical equipment	774.3
Raw cotton	478.9

Source: Board of Foreign Trade

Trade distribution



result of protests from the US, little gold has been imported. So the surplus with the US excluding gold actually fell by 12 per cent. The US's share of total Taiwanese trade fell to 30.4 per cent from 34 per cent in the same period last year. But Japan, whose large surplus at Taiwan's expense continues to cause concern, saw its share of trade creep up to 21.5 per cent from 20.9 per cent. Trade with Europe has climbed sharply in recent years, from 12.5 per cent in

with the mainland, which is permitted if carried out through a third country, has also flourished this year. Mr Augustine Wu, deputy director general of the Board of Foreign Trade, said two-way trade had risen sharply in the first six months and then slowed after the events in Tiananmen Square in June. But he thinks that "soon it will be normalised" and expects trade to rise to \$3.5bn this year from \$2.5bn in 1988.

Taiwan's efforts to reduce its surplus have lessened tensions. Currency appreciation, foreign exchange liberalisation and an action plan to cut the global surplus to 4 per cent of gross national product by 1992 all helped to avoid a citing as an unfair trading partner on America's Super 301 blacklist in May. Problems remain. Taiwan is still on a US watch-list concerned with intellectual property rights, and Washington is also concerned that Taiwanese driftnet fishing is catching salmon that originate in US waters. There are sporadic flare-ups over agricultural protectionism, too. Mr Wu says that Taiwan would be in a stronger position to end such protectionism if it were allowed to join the General Agreement on Tariffs and Trade. Taiwan's entry is being delayed by Peking's demand that it join first. "If we can gain full membership, we can gain more responsibility in trade," says Mr Wu.

Taiwan, R.O.C., An Investment in The Future of Asia

The economic center of the world is rapidly gravitating to the Pacific Rim. Most major international business corporations have recognized this trend by their concerted investments in this region. The Republic of China on Taiwan has been a prime focus of such investment. To the present tune of U.S.\$9.7 billion, foreign corporations are continuing a well established trend linking the future of international business in Asia with the stability and dynamics of Taiwan's economic miracle. There are good reasons for such a vote of confidence from the world's major international corporations:

The Republic of China's Human Resources

Taiwan's most precious resource is also its most unique quality. Enjoying one of the most democratic societies in Asia, the residents of Taiwan have proudly continued the traditional Chinese Confucian work ethic. Dedication, sincerity, compassion, and an em-

ROC Government Investment Policies

The ROC on Taiwan has consistently sought foreign investment as a partner in its development of the island's social, political, and economic structures. As a result of its close association with the international community, Taiwan has rapidly developed as one of the strongest economic and democratic forces in Asia. The ROC enjoys one of the freest presses in Asia and continues to develop grassroots access to the government. The same youthful and forward looking style that characterizes business management in Taiwan is also regularly evident in the new generation of managers that is rapidly rising to the top in government. The ROC continues to be very liberal in its foreign investment policy. It has lifted all restrictions on the percentage of ownership held by foreign investors, allowing on hundred percent foreign capital. Net profit, interests, and invested capital are allowed to be converted to foreign currency and remitted freely. The government treats foreign invested enterprises the same as firms established by Chinese citizens. Moreover, it also protects foreign investors, allowing one hundred international agreements and rigid local enforcement. The government has placed

Strong Domestic Market

Ford Motor Company established a joint-venture in Taiwan years ago and has become one of the top five largest companies in the domestic market. General Motors will establish itself later this year. The local stock market had a capitalization of US\$231.2 billion at the end of May, 1989. Recently, the government has permitted foreign securities firms to set up branches in Taiwan. Over the years, thirty four foreign banks, all among the top 500 world banks, have established their presence in Taiwan. Taipei was selected as the first Asian city to host the annual Pacific Basin Finance Conference because of its domestic capital market's rapid

special emphasis on investments relating to machine manufacturing, computer & communications industries, electronics, and precision instruments. In the city of Hsin-chu, the government has established one of the most modern scientific parks in Asia. The Hsin-chu Science Industrial Park is rapidly becoming known as the "Silicon Valley" of Asia. The ROC is pushing forward to move from the OEM stage of the high-tech industry on to the ODM (Original Design Manufacture) level. The ROC is also looking for foreign participation in the development of the local aeronautical, fine chemical, bio-tech, and environmental protection industries. The ROC's investment policies are keyed to developing the future economic potential of the Pacific Rim, now.

growth and the substantial changes brought about by the ROC's economic liberalization. The U.S.'s Citibank is keeping pace with the expanding domestic market by planning the establishment of twenty five branches island-wide within five to ten years. The Swiss firm of Egon Zehnder International, Ltd. cited the ROC as one of the three Asian countries expected to achieve the greatest banking growth. Moreover, in the Foreland report prepared for international lenders by the American firm BERI, the ROC is ranked among the only four countries in the best risk borrower category. Domestically and internationally Taiwan represents an investment in the economic prosperity of the Pacific Rim.

The Role of the Industrial Development and Investment Center (IDIC)

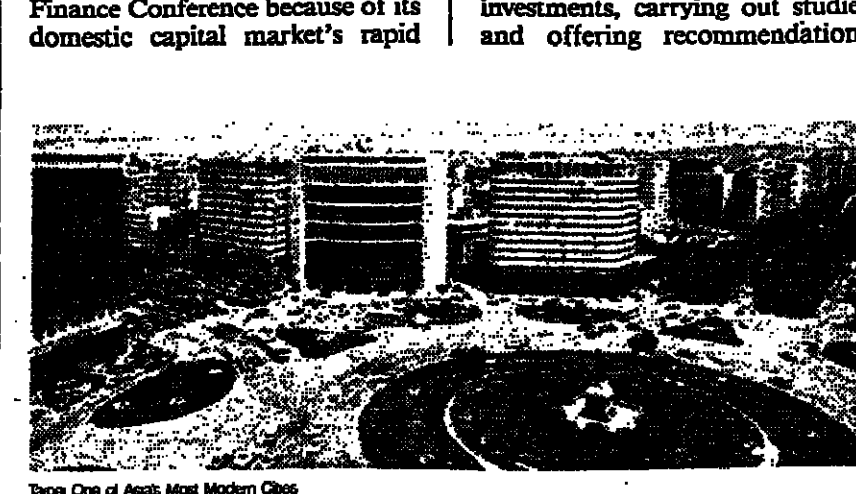
The Industrial Development and Investment Center (IDIC) the ROC Ministry of Economic Affairs is the bridge that assists prospective foreign investors in finding the suitable role for their investments in Taiwan. Functioning to assist the development of your plans for investment in Taiwan, IDIC performs a number of services such as: analyzing and reviewing investment projects, promoting investments, carrying out studies and offering recommendations



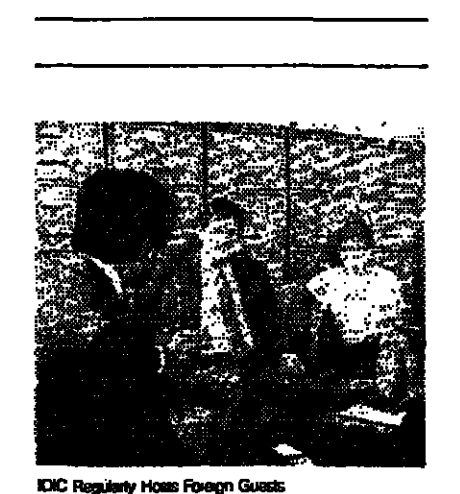
The ROC's "Silicon Valley"



ROC's President Lee Teng-hui meets Citibank President John S. Reed



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TAIWAN 4

Alison Maitland on a banking system only just beginning to revive after decades of bureaucratic rule

Much to do after years trapped in a time warp

BEING employed by one of Taiwan's state-owned banks involves the dubious pleasure of sleeping overnight in the office every few days. The safes may have time-locks but the rules insist that staff, rather than police or security guards, ensure the banks' safety.

Sleepy staff are symbolic of a banking system that is only just beginning to revive after decades of stifling bureaucratic rule. While economic growth has leapt ahead, the country's financial sector has been caught in a time warp.

The reason is the ruling Kuomintang Party's long-standing dread of inflation. The nationalists believe that rampant price rises and economic chaos on mainland China paved the way for their defeat at the hands of the Communists in 1949.

So almost every bank is under the thumb of one state organisation or another, and deposit rates have typically been kept low. Taiwan's excess liquidity has instead flooded into far more lucrative unofficial outlets and fed a huge black economy in money.

One foreign banker estimates that between 40 per cent and 50 per cent of Taiwan's total money supply is swirling around in this unregulated market.

Apart from the scandal over underground investment houses, there is an unofficial market in Chicago hog belly and orange juice futures. Ille-



Bank of Taiwan: the state controls most banks. A new breed of US-educated ministers is aware that things must now change

gal money lenders make short-term loans for property and stock market speculation and "stock friend societies" spring up in villages around the country to ramp a share price for a few days before de-banding.

The US-trained younger generation of government ministers and officials is keenly aware that things have to change if Taiwan's resources are not to be squandered.

"The Government and people here realise they need to have an indigenous financial base," says one foreign analyst.

"What is going to be Taiwan's most significant export over the next 20 years? The answer is capital."

Reforms have begun in the past couple of years. Foreign exchange controls have been eased in stages and Taiwanese individuals and companies may now take out up to \$5m each year and bring in up to \$500,000.

The central bank's domination of the exchange rate system ended in April. Now a group of nine banks, including some foreign ones, determines the daily range for transactions up to \$30,000, while rates for larger trades are negotiated between banks and their customers.

Foreigners have been allowed to play a bigger role in the securities market, too. Last year, the Government permit-

ted them to take stakes of up to 40 per cent (10 per cent per foreign company) in local securities houses, which were allowed to combine underwriting, broking and trading under one roof.

American, British and Hong Kong houses have taken stakes in local firms and have begun to tap Taiwanese savings by selling overseas mutual funds.

Three foreign securities houses are also to be allowed to open branches, though the requirements of \$20bn in assets, \$3bn in paid-in capital and membership of the New York, Tokyo and London exchanges mean that only big US firms like Merrill Lynch have shown interest so far.

The big four Japanese brokers are prohibited by Tokyo's recognition of Peking from applying, although there have been oral commitments to allow smaller Japanese firms to establish links.

Under revisions to the Banking Law passed in July, the official floor and ceiling on interest rates were removed and this has helped banks to offer more competitive rates.

But one of the biggest reforms introduced in July - the opening of the domestic market to new private banks - is facing delays.

This is partly because of the extraordinary response to last year's lifting of restrictions on new brokerages. About 150

firms applied successfully to set up in business, giving Taiwan a total of nearly 150 brokers and swelling trade on the volatile stock market. It is feared that a host of new private banks could make Taiwan's speculative financial markets even harder to control.

Already more than 20 groups have expressed an interest in setting up a bank, even though the capital requirement may be as high as NT\$10bn.

The other reason for delay is that the three leading state commercial banks - Chang Hwa, Hua Nan and First Commercial - want their planned partial privatisation to be completed before they face competition from the new banks.

With state-controlled salaries at their current low levels, the banks fear all their best staff will be snapped up. It is a measure of how underdeveloped they are that until this year only three Taiwanese banks were allowed overseas branches.

The banks' privatisation is itself being held up, partly by political considerations in the run-up to the December elections, and partly because there is still no law to govern the loss of state control. So it is unlikely to be before next year at the earliest that internal competition begins to shake Taiwan's banking system into the modern world.

Underground Investments

The alternative money-markets

THE Homey department store in Nanjing East Road is anything but retiring. Inside the nine-floor store, whose name is emblazoned on the pink exterior, smartly uniformed guides stand by the escalators to direct the shopper to the nearest Gucci counter or Pierre Balmain boutique.

This is the public face of the biggest of Taiwan's underground investment houses, which have absorbed an estimated NT\$300bn (\$11.5bn) in the past three to five years and helped drive the local stock and property markets into a speculative frenzy.

By offering interest rates of between 4 per cent and 10 per

The Government has announced a crackdown on the underground houses

cent a month, the unlicensed companies had little difficulty pulling in funds from the country's growing pool of savings when state banks were paying as little as 6 per cent a year.

Homey was once known to residents of Taipei as a bakery chain. Now, according to the Finance Ministry, it has investments in restaurants and hotels, one in the Middle East, as well as two department stores and its stock market holdings. Its Chinese name is Heng Yuan, meaning "the source of prosperity."

In July the Government announced a crackdown on Homey and the other 180 or so underground houses under the provisions of the revised Banking Bill. It outlawed all new deposits and introduced stiffer penalties, including a maximum seven-year jail sentence.

For a few days there was pessimism as the companies demanded their savings back. When the houses could no longer cope, they imposed a three-month freeze on withdrawals.

The stock market fell heavily for a couple of days amid fears that a forced closure of the investment houses would trigger a collapse in share prices.

The underground companies operated a pyramid system, paying out interest with cash coming in from new investors. It looked as if a pack of cards was about to fall. Then all went quiet. The Government had stepped back from open confrontation.

The implications of taking too heavy a hand with the half dozen big houses, including Homey, Lung Hsing (or Fortune Group) and Cheng Wei, which had just bought the Macao Jockey Club, were enormous.

"There has been a political compromise over the big ones," said a senior banker. "If we don't do it this way it would have a very unfortunate impact on the financial system. The stock market might be affected. The main problem is protests from investors, many of whom are military veterans

or retired government servants. Some of these ex-employees invested their entire retirement pay in the underground system. In addition, many investment companies are believed to have close links with ruling Kuomintang Party members. The chairman of Homey sits in the Legislative Yuan (parliament). If these companies were forced to sell their shares, the stock market could plummet and wipe out their assets, and the Government would be blamed.

"We should have taken action in the early stages," said the banker. "It's unfortunate that we postponed this problem until now. The companies are taking advantage of the election (in December). They think the Government will not take too drastic measures at this time."

The Government has taken action, but only against smaller houses. There were once thought to be 550 houses, but many collapsed or their founders absconded. At least 90 cases involving small companies have come to court in the past couple of months, according to Mr See-Ming Chen, director of monetary affairs at the Ministry of Finance.

"The big ones can solve their own problems. Either they pay the money back, or they ask investors to join the group and become shareholders," he said.

The houses are supposed to publish their assets and liabilities this month when the three-month freeze on withdrawals ends. Homey, which has already announced plans to turn all its depositors into shareholders, has said its NT\$65bn of deposits are more than covered by NT\$60bn in assets.

Even if the other big houses' figures do not balance, the Government hopes they will work out a compromise with depositors which would enable them to become regular companies, and thus controllable. It has been suggested that Cheng Wei will repay deposits with shares in the Macao Jockey Club and the Fortune Group is apparently planning to build houses which it will offer in part exchange for the money it owes.

The financial scandal could yet blow up again. Its social cost is already great. There are stories of life savings lost of old soldiers writing anguished letters to the Ministry of Finance, and of "dealers" - who were often housewives - becoming mentally distraught as friends begged for their money back after the doors of the underground houses had firmly closed.

STOCK MARKET

Big pay-offs for rookie investors

JOHN LI, 53, gave up his job at the airport 18 months ago to become a full-time investor in the Taipei stock market. Using a pool of nearly \$200,000 in savings, he has made a 50 per cent profit so far this year.

"I spend three hours in the market in the morning, and then I do three hours' homework," says Mr Li, who prefers not to reveal his real name. He plays the market in both directions. The previous day he had sold two thirds of his stock when the price was high.

"Autumn is the falling period," he explains. Mr Li is one of thousands of investors who have abandoned secure, well-paid jobs to take a gamble on a market that by western standards has gone crazy.

The weighted index has climbed from 1,000 to 10,000 in less than three years and the stock exchange puts the average price earnings ratio at a Japanese-style 53, with some food and financial stocks above 100. Estimates from foreign brokers are much higher, putting the prospective market p/e

at between 60 and 120. Capitalisation reached \$223bn at the end of August, placing Taiwan second only to Japan in the Asian region. There are just 177 listed companies, and only about 35 per cent of their share capital is freely tradeable, with the rest controlled by families, the Government or big institutions.

Yet turnover value on some days this year has exceeded all other world markets. On August 28, brokers watched in amazement as more than \$40m worth of shares was traded every minute for the three hours the market was open. Total turnover that day was a record \$7.6bn.

Foreigners have shied away from Taiwan, having watched

the market collapse by 40 per cent last autumn - when Ms Shirley Kuo, the Finance Minister, announced a capital gains tax - and then virtually double in the first five months of this year. Reflecting this overseas distrust, the four mutual funds through which foreigners may invest have been trading at a discount to net asset value.

Not that the Government is enthusiastic about opening the market to direct foreign investment at this stage. It has its hands full trying to control its own investors and to steer an over-abundance of cash into more productive channels.

The task is becoming harder as more and more small investors cram the floors of

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The task is becoming harder as more and more small investors cram the floors of

Price Earnings Ratio (1989 estimate)

Taiwan	73.5
Japan	62.3
Malaysia	21.3
Thailand	17.9
Singapore	15.5
Korea	13.9
Australia	11.9
Hong Kong	6.3

Source: Jardine Fleming

Taiwan's 180 brokerage houses. "It used to be about 85 per cent middle-aged housewives, but as the market's gone higher and higher, more husbands are showing up because their wives are earning more than they were," says one broker.

Fundamentals play little part, with the emphasis on chart movements and tips passed by word of mouth. Manipulation by so-called "big players" drives a stock to its daily limit and the crowd follows.

That can mean finding ways around the law. As the market bounced back from last year's capital gains tax shock, the number of share accounts swelled astonishingly from less than 1m to 5m. Big investors had opened thousands of surrogate accounts, often using the names of college students, to spread their profits and avoid the tax, which applies to amounts over NT\$10m a year.

The real number of investors is nevertheless thought to be at least 2m, or 10 per cent of the population. Demand still heavily outstrips supply, although this is changing. More companies are seeking listings - with 10 in September and October alone - and 29 rights issues have been completed this year. The amount raised, however, is less than half a per cent of the market's

capitalisation. The Government's latest plan to cool feverish demand is a share transaction tax, which will replace the discredited capital gains tax next year. It was initially to be 3 per cent, but the figure has come down to 1.5 per cent and many people believe it will be set at less than 1 per cent. The Government does not want to cause another upset just before December's elections.

The watchdog Securities and Exchange Commission, hampered by staff shortages, is also treading softly with its measures to curb manipulation. These include widening the daily price fluctuation limits, improving the quality of information, introducing a central share depository next year, and working with the Justice Ministry to stop insider trading.

The gloves may come off once the elections are over. Some of the big players are seeing their grace period (before the sales tax in January) as a last chance to make big money in Taiwan before it changes to being a boring market like Hong Kong," says Mr John Engle of Hoare Govett, the securities firm.

Not that everyone is disheartened. Mr Li's homework tells him that the autumn will bring a fall of between 30 per cent and 40 per cent. But next year, he predicts, "the market will reach 15,000."

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TAIWAN 5

Alison Maitland examines the expanding high-technology sector

Aided by a 'reverse brain drain'

ONCE derided as a nation of copy cat producers, Taiwan finds that the tables are turning as its high-technology industry advances into adulthood.

Microtek International, a leading Taiwan-based producer of image scanners, has recently taken a small competitor to court. It alleges that Umax, founded by six former employees of Microtek, is making the same product at a nearby plant using techniques learned at Microtek.

Mr T C Chiang, of the Lee and Li law firm who is handling the case for Microtek, says that know-how and techniques absorbed during the course of a product's development - cannot be protected by copyright law. "We want to establish a concept that intellectual property can be protected by civil law, even if it is not patent or copyright," he says.

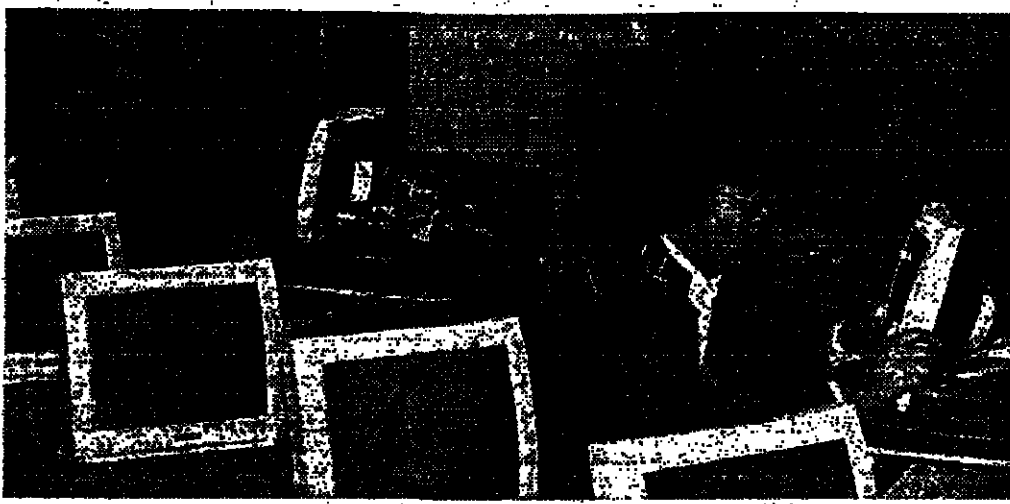
The case is currently pending with a district court and is being closely watched by the Government, since it may set a significant precedent.

Microtek, whose sales ballooned from \$6m in 1984 to \$36.8m in 1988, was one of the first companies to set up in Taiwan's pioneering high-tech science park, Hsinchu, in 1980. The park, about 70 km south-west of Taipei, now has 100 companies with 16,000 employees and is at the heart of the country's drive upwards into sophisticated and high-quality goods.

Steadily rising land and labour costs and an appreciating currency have made Taiwan's former staple of low cost production uncompetitive. "We have to keep moving ahead because our national goal is to become a developed country before 2000," says Dr Irving Ho, president of the government-sponsored Institute for Information Industry, who was the science park's first director general.

The road ahead is steep. Taiwan's hardware output last year totalled \$5.2bn, while the software and service side produced only \$400m. Overcapacity is helping push hardware prices down worldwide, while a severe shortage of experts in the software field is expected by the mid-1990s.

"If we develop ourselves into a leading software and systems manufacturer, it should have a



In the picture: Taiwan produced 10 per cent of the world's personal computers last year

good impact on computer application in the worldwide market, and everybody would benefit," Mr Ho says. Companies in the science park now spend between 5 per cent and 10 per cent of their sales on research and development, compared with an average of 0.5 per cent in the manufacturing sector as a whole. Taiwan's mainly small and medium-sized businesses have

The industry has attracted overseas Chinese from the US and elsewhere

generally spent little on R&D. So the Government established the Industrial Technology Research Institute in 1973 to develop new ideas, or license them from abroad, and transfer the results to the private sector.

As the industry has grown, it has attracted a "reverse brain drain" of overseas Chinese, who have returned from the US and elsewhere. At first, local Taiwanese thought the industry too risky, but a series of successful stock market flotations by computer companies has spread the word that business can be lucrative.

Technology is still coming into Taiwan from abroad, but local companies are also exporting their own technology for the first time. Mitsc International, a Hsinchu-based manufacturer of personal computers, announced last month that it was transferring complete

plant technology for the manufacture of two of its existing PC models to an Indonesian company, Multipolar, which will pay it fees and royalties. The venture will enable Mitsc to spread its brand name, a growing preoccupation since only a handful of Taiwanese companies are familiar abroad, especially in the West. Acer, Taiwan's biggest computer manufacturer, has set up an association with four other groups to promote Taiwanese brand names in an effort to retain a competitive edge over south-east Asian producers. The Government would like to see an increase in brand name computers to 40 per cent of total output over the next four years, from 20 per cent now.

Competition is becoming tougher in other ways, too. Microtek says its revenues are down this year, mainly because Hewlett-Packard of the US entered the market for scanners last year and the price of a colour scanner has plunged from \$2,500 to \$2,200. The worldwide downturn in the chip market is also hurting Taiwanese producers. Taiwan Semiconductor Manufacturing Company (TSMC), a joint venture between Philips of the Netherlands and the Taiwan Government, was set up in 1987 purely to make computer chips. Dr Klaus Wiemer, its president, says that 50 per cent of their local market has disappeared in about three months.

TSMC, which currently makes 12,000 chips a month and will have five times that capacity with its new plant starting early next year, is itself weathering the storm. "We have refilled capacity with added requirements from overseas," says Dr Wiemer. He argues that Taiwanese computer makers are particularly vulnerable to the current downturn because they mainly make consumer goods, a market that has softened appreciably. Taiwan produced 10 per cent of the world's personal computers last year. Acer, meanwhile, has just set up a \$250m joint venture in Taiwan with Texas Instruments of the US to make Dynamic Random Access Memory (D-Ram) chips, a potentially risky decision at a time when the Japanese are dropping plans to increase output because of falling demand. Mr Stan Shi, chairman, went into the venture with his eyes open: "Taiwan needs a D-Ram industry for the long term," he says. "If you need that, you have to carry the risk."

Mr Morris Chang, chairman of the Industrial Technology Research Institute, says Taiwan is building enough capacity to become the world's fourth producer of chips by 1992, behind Japan, the US and South Korea. A downturn could be a good experience, he argues. "Some companies will be in trouble and some may have to fold. But I think we will see a dynamic growth period for the Taiwanese integrated circuit industry. Given a few years, the industry will adjust to a more healthy balance of capacity versus demand."

John Elliott on why businesses are increasingly investing abroad

Corporate net spreads overseas

TAIWAN'S businessmen have started making their mark around the world during the past two or three years as manufacturers and investors. Their first target has been new sources of cheap manufacturing labour. But increasingly they are wanting to spread their wings and gain marketing and technological expertise which is lacking at home.

"We want to get into the boardrooms of foreign companies to tap international lines of information," says Mr Nelson Chang, president of Chia Hsin Cement Corporation.

The search for cheap labour, to make products such as shoes, toys and textiles, has made Taiwan the first or second largest new investor in the Philippines, Thailand, Malaysia and Indonesia.

At the same time, foreign investment is continuing to flow into Taiwan in record amounts. In the first eight months of this year inward investment totalled \$1.66bn, exceeding the previous full year highest total of \$1.42bn reached in 1987. Taiwan's investments overseas started because of rising domestic wage costs and because of rapid increases in

the value of the Taiwan dollar, which has appreciated by about 50 per cent in the past four years.

Companies have also wanted to expand from their relatively small domestic market of 20m people and to dilute the political and labour risks of operating at home. The outflow of capital was substantially freed two years ago and this has driven companies to look for investments and takeovers in the US and in Europe. "We must establish footholds abroad now when there is so much surplus foreign exchange and then generate earnings for the day when the Taiwan economy has a downward trend," says Mr Chang. His company has diversified into textiles, property, computer software and financial services in Taiwan and is now working on two cement company acquisitions in the US and an African country.

In the first eight months of this year new investments abroad approved by the Taiwan government reached a record total of \$509m compared with \$153m in the same period last year. Mr Johnny Ni, director of the Ministry of Economic Affairs' Industrial

Investment Centre says that these figures under-state the real total.

He estimates that the total value of new foreign projects backed by Taiwan investors (who often take old or new Taiwan plant with them) was nearer \$1.6bn in the first eight months of this year compared with \$1.4bn in the whole of last year. But Mr Ni casts doubt on mainland China's claim that Taiwan businessmen have implemented \$500m of investments indirectly through Hong Kong.

Mr Ni's figures show that in the first half of this year new Taiwan-backed investment totalled \$410m in Thailand, \$350m in Malaysia, \$130m in the Philippines and \$60m in Indonesia. He estimates the figure in the US at \$1bn in the first eight months.

The official government \$509m total for the first eight months include \$349m in the US and \$70m in Malaysia. The biggest industrial sector involved was chemicals at \$232m, followed by electronics and electrical appliances at \$87m and services at \$34m.

But Taiwan companies do not always find foreign excursions easy, especially on take-

over bids. "It will be some years before Taiwan is really significant abroad because we don't have the necessary managerial depth," says Mr Douglas Hsu, president of Far East Textile, one of Taiwan's largest and internationally most active groups which is planning investments eventually totalling \$200m in Pilsyn, a recently acquired Philippines fibre company.

Taiwan has also found it difficult to negotiate special arrangements with the many countries that do not recognise it diplomatically because of international pressure exerted by Peking. It has managed to agree a double tax treaty only with Singapore, one of several countries with which it has so far failed to reach an investment protection agreement.

Mr Ni shows some impatience with such countries, including the Philippines, where he says Taiwan has overtaken the US as the largest foreign investor but cannot obtain tax and investor agreements. "These countries need jobs for their people and to develop their economies. So they must find a solution or big investments will not materialise for them."

Imperial Chemical Industries

Prize investment

TAIWAN was recently chosen by Imperial Chemical Industries in preference to countries such as South Korea, the Philippines and mainland China for a \$300m fibre project which is the UK-based group's biggest single investment anywhere in a decade.

At a time when Taiwan's wages and land costs are rising sharply, and when there are also increasing labour, trade union, environmental and other problems, that might seem a curious decision on a highly mobile project.

But ICI, which does not recognise unions in its Taiwan plants and has not suffered labour problems with its 600 employees, appears to have no doubts about its decision. There do not even appear to have been doubts following environmental pollution protests which forced it to shut an existing joint venture plastics plant in the south of the island shortly after it announced the new venture.

and where the main opposition alliance, the Democratic Progressive Party, is strongest.

ICI has a 60 per cent stake in a plastics company called Kaohsiung Monomer, which annually produces 35,000 tonnes of an acrylic intermediate known as MMA. Fishermen complained that a shipping subcontractor was dumping waste acid near the coast instead of taking it 20-25 miles out to sea.

ICI could not deny the accusation but has refused to accept a NT\$900m (about £24m) claim from the fishermen. It is trying to reach a settlement with the government's Environmental Protection Administration and has offered to improve its monitoring of subcontractors' ships and to meet new legal requirements on

reduced acidity neutralisation before the dumping.

Before the protests, it had started spending \$50m on equipment which would dispose of the surplus acid and end the dumping at sea. This forms part of a \$100m expansion to double output at Kaohsiung Monomer, which is 40 per cent owned by China Petrochemical Development Corporation, a Taiwan government company.

ICI has been in Taiwan for 41 years. It was involved only in trading until 10 years ago when it started production, including two joint ventures - Kaohsiung Monomer and Atlas Taiwan which make explosives. Its annual turnover is \$300m, 60 per cent imported sales and 40 per cent local manufacture. Mr Chandler expects this to triple by 1992 when the new TPA plant will be operating and the doubling of output at Kaohsiung Monomer should be completed.

Advertisement for 'WORLD TRADE CENTER' featuring a large graphic of the letters 'WORLD TRADE CENTER' and a group of people carrying bags, suggesting global trade and migration.

Advertisement for Jardine Fleming with the headline 'We have an edge in Taiwan'. It includes contact information for Jardine Fleming Holdings Limited in Hong Kong and various regional offices in Asia.

TAIWAN 6

Alison Maitland on the country's unenviable pollution record

Green factor enters centre stage in run-up to election

ONE of the striking sights on the road into Taipei from the airport is the motorway toll booth attendants wearing surgical masks over their mouths and noses.

The reason is that traffic is so heavy on the overloaded motorway that it often grinds to a virtual halt and the air is thick with poisonous exhaust fumes. In Taipei, too, some of the hundreds of thousands of motorcyclists wear masks as they ride about in clouds of smoke.

Pollution has become a top public concern and the opposition Democratic Progressive Party (DPP) is making it a priority in the big cities for elections on December 2.

"The main issue is that Taiwan is one of the most polluted places on earth," says Mr Tsai Shih-Yuan, DPP deputy secretary general. "Since the late 1960s we ignored all the issues about pollution... part of the reason for our successful export business is that we have a lot of polluting industries and they haven't had to pay for the cost of pollution."

With 548.5 people per square kilometre, Taiwan has the second highest population density in the world. Its 30m increasingly affluent citizens drive 10m cars and motorcycles, giving a motor vehicle density double that of Japan and 15 times that of the US. In June alone, more than 34,000 new cars and 153,000 motorbikes came onto the roads.

There are roughly 87,000 factories of every shape and size along the 340 km highway that links the north of the island with the south. Many use toxic substances which have been allowed to leak into the water and soil during years of environmental neglect.

Oysters raised in Taiwan contain rising amounts of heavy metals, while serious levels of cadmium, chromium, zinc, copper and lead have been discovered in arable land near factories and waste dumps.

There is only a minuscule amount of primary sewage treatment and the health risks are exacerbated by Taiwan's 7m pigs, which produce up to six times the excrement of a



Masked rider: Motorcyclists in Taipei are now forced to protect themselves against pollution

human.

"Facilities to protect humans and nature from the toxic, mutagenic, carcinogenic, unsanitary and generally dirty and unpleasant consequences of industry are at best primitive," said a report published earlier this year by the Academia Sinica group of professors and researchers.

The report pointed out that public protests about pollution had become more common and

"In general the public knows too little to act as responsible participants in the process of maintaining a healthy environment"

in some cases more aggressive. "The public knows enough to become alarmed, but in general knows too little to act as responsible participants in the process of maintaining a healthy environment."

In October last year there was a potential accident when residents of the southern industrial district of Lin Yuan laid siege to 15 petrochemical

plants which they said were discharging waste water that polluted their fishing grounds. The demonstrators are reported to have tried to close valves and shut off pipes and to have been stopped only by bodily intervention by plant employees.

A spate of environmental protests like this have triggered increasingly large demands for compensation, which companies were at first willing to pay. As the amounts grew, so did accusations that some protesters were not genuine plaintiffs but were jumping on a lucrative bandwagon.

The Government now discourages direct compensation payments. But it has taken the growing unease about pollution on board and admits the problem is huge. Mr Shih-Chien Yang, director general of the Industrial Development Bureau, reckons it will take five years to sort out the country's industrial pollution and says there is a shortage of environmental control experts.

To co-ordinate the clean-up, the Government established an Environmental Protection Administration two years ago. The EPA has a committed young staff of 320 at its Taipei

headquarters, 900 enforcement officers to check on polluting factories, and a long list of practical and educational plans such as the Blue Sky and Clean River projects.

With a budget this year of more than \$500m and plans for the public and private sectors to spend up to \$40bn on the environment by 2000, the EPA's head, Dr Eugene Chien, argues that the Government has made a U-turn in the past two years. "Things were deteriorating before, now we're going upwards," he says.

The EPA is seeking help from foreign companies that specialise in waste management and pollution control. For example, a \$130m project to build three huge rubbish incinerators for the cities of Taipei and Kaohsiung is being planned and supervised by the West German group Fichtner.

Some westerners see Dr Chien as a crusader, locked in battle with entrenched political and business interests.

Whether he wins is still an open question. As one western observer put it: "The Government is walking a tightrope, wanting to appear very aggressive and at the same time not to irritate powerful forces."

John Elliott on the trade unions since the lifting of martial law

A watershed in labour relations

FORD Motor's Taiwan company recently sent its trade union officials to Mazda's plant in Japan to learn co-operative ways of conducting labour relations. Meanwhile, Taiwan's emerging opposition is trying to politicise labour troubles, which could exacerbate conflicts.

This illustrates how Taiwan's infant trade unions and labour relations are at a watershed following the ending of martial law. The question is whether workers will concentrate on boosting their own wealth in a booming economy, or will they change their work ethic and combine in collective militancy.

If you want me to make a choice between western and Japanese style labour relations, then because of our philosophies and our culture, I say that we prefer the Japanese style," says Mr Shou-Po Chao, chairman (with Minister of State rank) of the Council of Labour Affairs.

Compared with South Korea we have no union prob-

lems. We have none of Korea's huge hostility between labour and management, although the political parties are there at every strike," says Mr Nelson Chang, president of Chia Hsin Cement. "At present employees' bargaining strength stems from shortage of labour rather than militancy."

There is a serious scarcity of

The question is whether workers will concentrate on boosting their own wealth or combine in collective militancy

labour, especially on construction sites. But the Government is resisting demands for widespread import of workers because of the risk of social tension. There are already an estimated 20,000 illegal workers from elsewhere in Asia. Mr Chao's council has prepared guidelines for selective importation of people to work on spe-

cific construction projects, staying for not more than one or two years.

No-one is sure which way the country's labour relations will now develop. Optimistic employers argue that after a rash of strikes which followed the lifting of martial law two years ago, employers and employees have settled down to more constructive relationships. This argument suggests that the traditional work ethic will curb militancy.

Others argue that the work ethic has already started to deteriorate and that there will be an inevitable build-up of trade union power, despite Taiwan's tradition of small companies and Confucian respect for authority and relationships.

Out of 8m people in employment, only 2.4m are in trade unions, which have been seen basically as constructive bridges between employers and employees, dominated by KMT-appointed leaders. The unions are mostly in-house, plus some external craft-based organisations. Many are linked to industrial and geographical union federations which have no real power. Only a fraction of the unionised total are so far covered by collective bargaining agreements, while the Council of Labour is now encouraging employers to introduce them.

For many years employers have only been required by law to take account of their employees' welfare. This has centred on profit sharing - mainly paid in February or March as a Chinese New Year bonus. When strikes were permitted with the lifting of martial law, these bonuses became the focal point for industrial action.

Ford's factory - a 70 per cent Ford-owned manufacturing and importing joint venture called Ford Lio Ho - paid three months' bonus this year after a three-day strike called in support of a claim for 10 months' bonus. The three months amounts to 5 per cent of profits and this has now been included in the company's first collective agreement as a fixed percentage for the future. Ford also pays a two-month year-end bonus and a 24-day attendance bonus which brings the pay of the company's 2,500 hourly paid workers up to the equivalent of about

18 months salary a year at an average rate of T\$19,000 a month.

Such high bonuses are not unusual. Far East Textile, a major Taiwan group which has faced union troubles and has been averaging between 15 per cent and 20 per cent wage increases for several years, paid 150 days bonus in one

The new labour laws will provide a framework of legislation which Taiwan needs as its economy develops

plant last year after a one-day strike. This year it paid 165 days and Mr Douglas Hsu, the president, says the group average is 130-140 days.

The other main source of trouble has been disputes over employees' rights and employment conditions, especially on issues like severance pay. In many cases the disputes have been caused by conflicting interpretations of the Labour Standards Law which lays down minimum conditions and covers seven industries such as manufacturing, construction, agriculture and transport with about 3.5m workers.

Labour activists want the range of industries expanded. But employers say the law is already unfairly tilted against them and, backed by the Ministry of Economic Affairs, they are opposing any expansion. Revisions have been prepared by the Council of Labour. These are partly aimed at clarifying points which have caused disputes and at introducing flexibility.

A revision of the Labour Union Law, which governs disputes and was last changed in 1975, is also being prepared. This will introduce the US concepts of unfair labour practices and private mediation and arbitration, plus restrictions on strikes affecting the public. It will cancel compulsory union membership where unions exist, and will give general guidance on the conduct of strikes.

These laws could be highly contentious, but they will provide a framework of labour legislation which the country urgently needs as its economy develops.

Profile: Dr Fredrick Chien

Plea for mutual tolerance

"THE Government can no longer play the old role of a great power, telling you 'this you can do and that you cannot do and if you do this I am going to crack down,'" says Dr Fredrick Chien, a distinguished 54-year-old diplomat who is now chairman of the Council of Economic Planning and Development.

"I think the most worrisome thing is that we have had political democratisation, economic liberalisation and the social opening up, all coming to a confluence in a very brief period of two years. Therefore people are really enjoying this new found freedom and everybody would like to practice it to the maximum. That is what worries me. But I hope this will be temporary," he said.

Mr Chien was reflecting on problems created by Taiwan's recent massive changes which have led to rampant gambling, especially on the stock exchange.

The country's work ethic has been put at risk and the hitherto almost unquestioned authority of the Government has been questioned and even successfully challenged.

Someone tipped as a possible future prime minister, Mr Chien was Taiwan's *de facto* ambassador in the US for five years from 1983. He was born into a distinguished Shanghai family and is one of a younger generation of mainlanders who have achieved influential government posts in the past couple of years.

"The Government should learn that it is not omnipotent. It cannot interfere too much. The people will not tolerate it"

"The Government cannot exert its old role. It cannot interfere too much. The people will not tolerate it," he said, referring to at least two occasions when the Government has been forced by public protest to back down on policy decisions.

One happened a year ago when Ms Shirley Kuo, Finance Minister, imposed a tax on stock exchange dealings to try to dampen the market and was forced by speculators' protests to water down her plans.

"The Government simply should learn that it is not omnipotent, and the people should learn that too. If you want to have a democratic society you cannot have double standards."

Reflecting concern about possible student unrest, Mr Chien said that the Government should encourage student institutions "to help the students exercise more self-control, to live and let live."

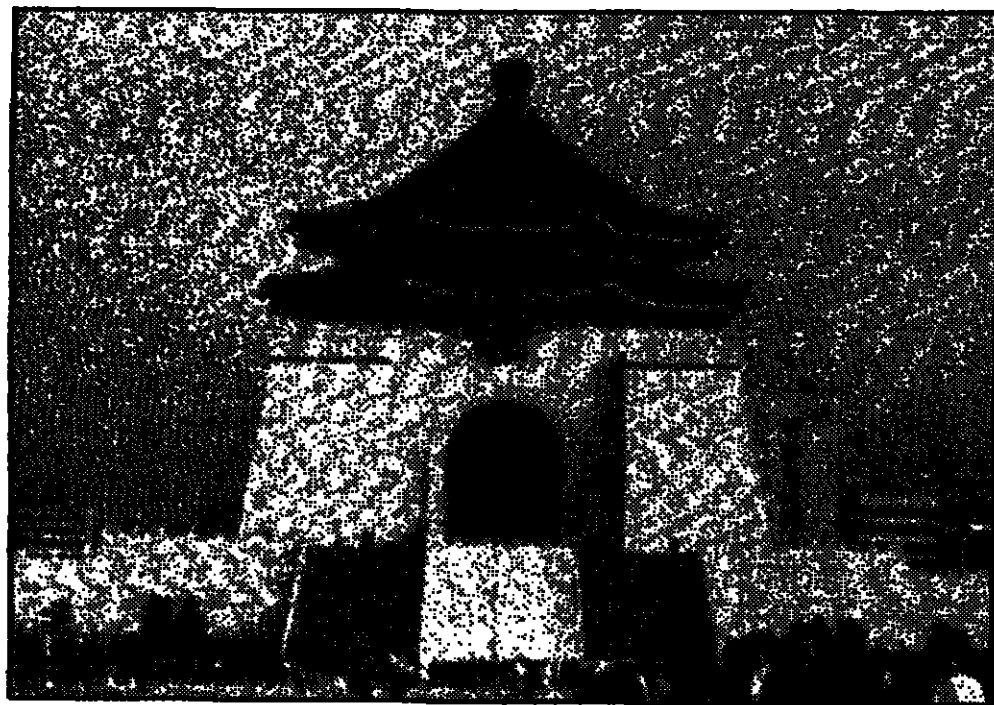
That kind of ethical approach should be popularised. "In other words try to discourage people from being overly egoistic. The Government should also provide better law and order enforcement to counter a rising crime rate."

Mr Chien said that Taiwan's labour problems were "not indigenous. Many 'outsiders' from the US, Ireland and elsewhere had 'come to lecture us.' The international trade union movement had been very active."

"We have the traditional Chinese working ethic that employers treat employees as members of the family and it is reciprocated." Now a trade union movement was being imported, just as had happened in Japan. It would "take some time to achieve mutual respect and mutual tolerance."



Dr Fredrick Chien



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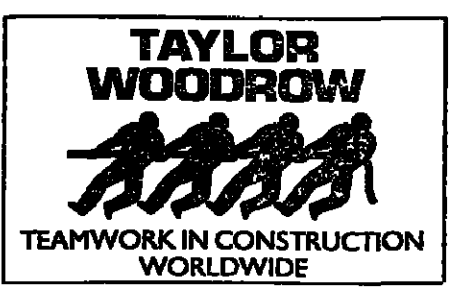
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FINANCIAL TIMES COMPANIES & MARKETS

Tuesday October 10 1989



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INSIDE

Building success in the shadows

Until now, Colonia Versicherung, West Germany's second-biggest insurer has — like most of its smaller counterparts — lived in the shadow of Allianz, Europe's biggest insurance company. It has been content to remain an amalgam of medium-sized companies that specialise in their own fields, a policy that has paid off, claims chief executive Dieter Wendelstätt (left). But what will happen in the wake of the takeover by Groupe Victoire of Franco's Haig Simonian reports. Page 22

New path to protection

It has long been realised that the crisis in British farming stands to have positive effects on the British countryside. Now, in direct response to this and the upsurge in environmental consciousness, the Country Landowners' Association is planning to speed up that process with proposals to ensure that streams are kept clear of pollutants, fields neatly hedged and footpaths properly maintained through farmers entering into contracts with their local councils. Eric Storer looks at the idea that the association will put to Mr Raymond MacSharry, European Community Agriculture Commissioner, in Brussels next month. Page 36

Working up a head of steam

Used nappies, potato peelings, last weekend's newspapers and unseasoned food. All can be used to fire steam-producing boilers and play a part in a process being hailed as an ideal way to create energy and dispose of rubbish at the same time. However, some horrified observers see it as a recipe for environmental disaster. Peter Knight reports. Page 35

Finely balanced

An ebullient US stock market, propelled by encouraging economic news and an irrepressible dollar, could do no more than counterbalance the depressing effect of Japan's currency-inspired slide. As a result, with the US rising 2.8 per cent over the week and Japan falling 2.4 per cent, the FT-Actuaries World Index ended the week unaltered. Page 48

Brazil's strange beast

A state-owned company run by military officers and operating in a competitive, high-technology sector, Brazil's Embraer is certainly a strange beast. The civil and aviation company has in its 20-year history achieved a number of successes, including the sale of its Tucano trainer (above) to the RAF, but it has lately run into money problems. John Barham reports. Page 23

Market Statistics

Base lending rates	44	London share service	48-49
Benchmark Govt bonds	26	London traded options	28
European options each	44	London traded options	28
FT-A indices	28	Money market	44
FT-A world indices	48	New int bond issues	44
FT int bond service	28	World commodity prices	36
Financial futures	44	World stock mt indices	46
Foreign exchanges	44	UK dividends announced	28
London recent issues	28	Unit trusts	38-41

Companies in this section

Aberfoyle Holdings	29	ISA International	39
Accor	22	James Neill Holdings	28
Aker	24	James Wilkie	28
Aifa-Laval	22	Mrs Fields	29
American Medical Int	23	Norex	29
Armstrong Equipment	29	Parkland Textile	29
Associated Suppliers	29	Refrus	22
Audio Visual Media	29	SEU Stores	29
Babcock International	30	Savage Group	30
Bond Corp	24	Sharp & Law	29
Cliff Resources	29	Spartanbank N Norge	24
Embraer	29	Sunlight	30
Euro Disneyland	22	TIP Europe	29
FKB Group	29	Triplex Lloyd	29
Ferranti Int Signal	29	United Guarantee	29
Guilford Mills	28	Valoures	22
Hartley Baird	28	Wickham	29
Hewlett-Packard	23	WBS Industries	29
Heywood Williams	29	Walford Int	24

Chief price changes yesterday

FRANKFURT (DEM)	PARIS (FFP)		
Banqueparibas	226 + 7	Lat. Dates	2390 + 115.2
Deutsche	824 + 14	Lotobal	775 + 30.1
Industrie	1840 + 45	SAT	1470 + 61.1
Pharm		Peel	
Auto Deutsche K	875 - 23	CFE	1175 - 68.5
Hertz	289 - 2	Europabank	53 - 6.8
Lafarge	1180 - 10	Pfisterbank	798 - 20.7
NEW YORK (US)	TOKYO (Yen)		
Alcoa	11500	Wissac	
AMR	104 1/2 + 1 3/4	Hirose Electric	6000 + 75.0
Amgen Medical	22 1/2 + 1 1/2	Kyocera	2330 + 29.0
West Union	124 1/2 + 6 1/4	Shell Leasing	1440 + 34.0
Datsun	81 1/2 + 1 1/2	Shimizu	1740 - 11.0
USAA	51 1/2 + 1 1/4	Toshiba Chem	1170 - 6.0
Phelan	51 1/2 + 1 1/4	Tokai	1650 - 15.0
Gen. Fin.	20 1/2 - 1 1/4		

LONDON (Pence)

Shell	440 1/2 + 5	Castrol	379 - 12
BP	440 1/2 + 5	Castrol Sp.	308 - 13
Shell	440 1/2 + 5	Europalint	228 - 40
BP	440 1/2 + 5	GE	229 - 6
Shell	440 1/2 + 5	Heywood Williams	
BP	440 1/2 + 5	Jaguar	685 - 12
Shell	440 1/2 + 5	Agar	685 - 45
BP	440 1/2 + 5	Lloyds	378 - 8
Shell	440 1/2 + 5	Orford	246 - 9
BP	440 1/2 + 5	Shell	674 - 16
Shell	440 1/2 + 5	Warburgs (S&B)	412 - 10
BP	440 1/2 + 5		

Eurotunnel confident amid cost problems

By Andrew Taylor in London and George Graham in Paris

EUROTUNNEL, the Anglo-French channel tunnel group, yesterday mounted a robust defence of its handling of the crisis it is facing as a result of rapidly rising construction costs. Despite the announcement of increased revenue forecasts and better tunnelling rates recently, Eurotunnel's share price fell a further 41p to 329p yesterday. The group said breakthrough on the first of three tunnels being built would occur "one year from now" — allowing people to walk between Britain and France for the first time since the Ice Age. The group also denied that it was embroiled in a row with its contractors over increased costs. Mr Alastair Morton, British joint chairman, said: "The momentum and physical progress on the project is now massive and pretty impressive and very close to programme. There is no row, brawl or any such word going on. What there is going on is a strong difference of commercial opinion." Eurotunnel was currently talking about raising between £1bn and £1.5bn early next year. Mr Tony Biddle, project managing director, said contractors had made substantial progress digging the central service tunnel during the last six weeks. A record 445 metres had been achieved last week. Breakthrough on the service tunnel was expected one year from now. Mr Biddle said French tunnellers digging the main running tunnels were between eight and 13 weeks ahead of schedule, while the British were eight to 12 weeks behind schedule. Eurotunnel has also modified its traffic forecasts. These now show a smaller amount of rail passengers and bulk freight using the tunnel during the years following the opening in 1993, but a larger number of cars, lorries and coaches being carried through the tunnel on shuttle trains operated by Eurotunnel. The net effect is that revenue is unchanged in the early years, but rises sharply by 2003 compared with previous forecasts as rail traffic increases following the completion of high-speed lines. Page 20



I see no ships: Alastair Morton presenting Eurotunnel's interim figures in London yesterday.

Shares in Singapore investment fund to be placed today

By Nikki Tait in London

SHARES in a new \$30m investment company, the Singapore SESDAQ Fund, specialising in investments in Singapore's second-tier market are due to be placed today. The fund is Jersey-based and will be managed by John Govett. It will invest primarily in the 14 companies which make up the SESDAQ (Stock Exchange of Singapore Dealing and Automated Quotation market), but also in unquoted companies which the managers think will be coming to the market. In addition, the fund can consider investments in securities which have moved up from a SESDAQ listing to the main Singapore market. The total market capitalisation of the SESDAQ, which was effectively launched in early 1987 is just under \$800 million. The company is offering 3m shares and 600,000 warrants for subscription, in units of five shares and one warrant. The offer price is \$10.50 per share, of which \$0.50 will go on underwriting and placing commissions. Issue and other initial expenses amount to some \$500,000, leaving a net \$29.5m to be invested. Each warrant entitles the holder to subscribe for one share at \$10.50 between the end of March 1990 and the end of October 1992. Govett Oriental, one of the investment trusts in the John Govett stable, has already agreed to take 25 per cent of the issue. There is also an option arrangement under which Govett Oriental has agreed to amass a portfolio of up to \$15m-worth of Singapore securities which John Govett and the new fund's brokers, Hoare Govett, can then purchase. The purchase price would be the initial cost to Govett Oriental, its carrying costs plus commission of 2 per cent. Dealings in the shares of the fund are due to start on October 19. The management fee on the fund is 1.25 per cent per annum, and the managers also receive an arrangement fee of \$180,000 in respect of "services towards the sponsorship of the company." The new company is the latest in a number of investment funds to be launched in London, specialising in the stock markets of South East Asia. These have included the Thornton Emerging Markets Investment Trust and, more recently, the Drayton Asia Trust — both of which raised about £100m. The SESDAQ market effectively came into existence in February 1987. It is established under the auspices of the main Stock Exchange of Singapore.

Standard-bearing WestLB grabs the political initiative

Haig Simonian explains how the group has sought to take the lead in the restructuring of West Germany's public-sector banking system

By teaming up with Britain's Standard Chartered Bank, WestLB, West Germany's fourth biggest bank and its largest public-sector financial institution, has established itself as the decisive force in the long-awaited restructuring of Germany's public-sector banking system. But last week's announcement, in which WestLB said it had agreed both to buy the UK bank's European-branch network and set up a joint merchant bank, is little more than a partial solution to the deeper problems facing Germany's public-sector banks. The deal should boost WestLB's growing international and merchant banking presence, and so guarantee it the biggest seat in any negotiations on a reorganisation of the public sector Landesbanken which is now under way. But it does little to tackle the prime problem confronting Germany's public sector savings banks and the Landesbanken, which they own jointly with the regional state governments. For WestLB, and all the 10 other Landesbanken, will remain at a decisive disadvantage to their private-sector rivals, until they can gain better access to cheap retail deposits and establish a stronger corporate client base. According to the deal, the two banks will combine their resources in a new banking and corporate finance activities in a new joint venture, comprising Standard Chartered Merchant Bank and WestLB's existing corporate finance activities based in Düsseldorf, but now spreading to Frankfurt and London. WestLB is also buying Standard Chartered's European branch network, employing some 550 staff in 10 countries, but excluding its operations in Switzerland and in Frankfurt. The German bank will also gain access to the UK bank's worldwide network, covering some 740 branches, with the emphasis in Africa and Asia. Like the co-operation between Royal Bank of Scotland and Banco Santander of Spain, the deal is a further indication of the mounting interest among European banks in forming cross-border alliances in anticipation of the single market after 1992. This is a trend which is particularly pronounced in medium-sized banks, like WestLB and Standard, which lack the resources to go it alone. Whether the WestLB/Standard Chartered decision is the right solution to either bank's longer-term problems remains far from clear, not least because there are obvious limits to the range of co-

ICI in \$450m sale to Merck venture

By Peter Marsh in London

IMPERIAL Chemical Industries is to sell its US non-prescription drug business to a joint venture between Merck and Johnson & Johnson, two big US pharmaceutical companies. The deal is worth more than \$450m. The transaction, announced yesterday, will be effected partly by a cash payment, believed to be between \$350m and \$400m. ICI, Britain's biggest chemicals company, is also receiving the rights to sell in the US a prescription-only drug developed by Merck for relieving depression, a field which the UK company is anxious to move into. The agreement is part of the recent restructuring in the world's \$120bn-a-year drugs industry. Recently, several large pharmaceutical companies have merged, while others have shed parts of their businesses to concentrate on what they consider to be more profitable areas. Merck, the world's biggest drugs company, formed its joint venture with Johnson & Johnson over-the-counter (OTC) medicines in March this year as a way of diversifying away from the prescription-only business. OTC products, which do not need a doctor's prescription, can be bought in a variety of retail outlets and are generally thought to have good growth prospects even though margins are lower than on many prescription drugs. Johnson & Johnson is one of the leaders in the US non-prescription medicines market, which is worth about \$10bn a year and is expanding rapidly. The company is working with Merck to produce variations on a number of Merck prescription-only formulations to make them suitable for retail sales. Under the deal announced yesterday, the Merck/Johnson & Johnson venture will take over responsibility for selling OTC products which ICI markets in the US under the Stuart brand name. These products, with sales of about \$125m last year, include Mylanta and Mylicon, medicines for relieving mild stomach disorders. The joint venture will also take over an ICI drug production unit in Pasadena, California. As part of the agreement, ICI will receive the rights to sell in the US a Merck anti-depressant product called Elavil, which has US sales of about \$30m a year. ICI, which is about 20th in the world drug industry sales league, had pharmaceutical revenues last year of \$2.1bn.

	West LB	Standard Chartered
Branches	22*	740
Employees	9,700	26,000
Total assets	DM166bn (£56bn)	£23.7bn
Net profits (end 1988)	DM161m (£54m)	£313m
Shareholders	State government of North Rhine-Westphalia/regional savings bank organisations	Publicly-quoted company

* Includes rep. offices

Friedel Neuber, chief executive of WestLB. The deal will address this weakness at WestLB in a number of ways. It will improve WestLB's access to London, where the merchant banking business in particular is more developed than in Germany. Moreover, by pooling resources with Standard Chartered's merchant bank, WestLB's corporate financiers will be able to leapfrog Frankfurt, where the bank tried, and failed, to merge with Hestische Landesbank, a smaller but better located Landesbank, last year. But even when the agreement is completed Standard Chartered will still lack an adequate UK business base and WestLB will have done little to escape from its own narrow base in its home market. The result is that both banks remain unusually vulnerable to developments outside their control. WestLB's problems are particularly marked. Rather than having access to cheap customer deposits — a business reserved for savings banks in Germany's public-sector banking system — it has to fund itself in the wholesale money markets. But as the difference between short and long-term German

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INTERNATIONAL COMPANIES AND FINANCE

Euro Disneyland issue meets huge French demand

By George Graham in Paris

THE flotation of Euro Disneyland, the leisure park under construction near Paris, opened to overwhelming demand yesterday, the first day for subscriptions in France.

Bankers handling the issue said the shares allotted to France - half of the FF4.1bn (643.6m) offering - had been several times oversubscribed already yesterday.

A number of branches of Banque Nationale de Paris, co-lead manager with Banque Indosuez, were already refusing in the morning to accept further orders from customers, saying they had used up their allocations. Several stockbrokers also said they had been unable to obtain any Euro Disneyland paper.

The offering has not yet been formally closed, but it appears likely that any orders placed from now on will have only slim chances of success.

In France, Euro Disneyland has chosen the method of "public subscription," rather than the "offer for sale" format generally used for large flotations, such as privatisations or the recent offering of Yves Saint Laurent, the fashion house.

Under the public subscription system shares are allocated to a pool of banks and each bank may then redistribute them as it sees fit.

With an offer for sale, all orders are centralised and then scaled down, if necessary, by a uniform percentage.

The balance of the shares are being sold elsewhere in the European Community, with the UK absorbing about 25 per cent. S.G. Warburg Securities, the London securities house which is lead manager of the international tranche, yesterday reported strong demand for the shares across Europe.

Accor sees good year as interim profits leap 40%

By William Dawkins in Paris

ACCOR, the world's eighth-largest hotel group, yesterday produced a 40.2 per cent rise in net profits for the first half of the year and confirmed that 1989 profits were expected to rise by 22.5 per cent to FF576m (\$89.7m).

The company's net profit climbed to FF723.6m from FF517.3m on turnover up from FF6.35bn to FF7.17bn.

After-tax profit was struck before a steep fall in exceptional profits from FF45.9m to FF12.9m.

Accor operates 773 hotels in 53 countries, including the Sofitel, Novotel, Ibis, Mercure and Formule 1 chains. It opened 74 establishments in the first half of 1989 and expects the total to reach 800, with 90,000 rooms, by year-end.

Its restaurant chains include l'Arche in France, Meda's in Spain and Pizza DelArte in both countries.

The group, 10 per cent owned by Société Générale de Belgique, the Belgian holding company, attributed the profits improvement to good performances from its European hotels, its French and Spanish motorway and shopping centre restaurants and its luncheon voucher business.

Accor is the world's leading provider of luncheon vouchers, under its Ticket Restaurant brand. The number of voucher holders rose 22 per cent, by 653,000 to 3.8m.

Elf Aquitaine, the big French oil group, plans to reorganise its oil and gas activities by grouping three divisions into a single unit. The new hydrocarbon division would combine exploration and production, refining and marketing and international trading and maritime transport activities.

Belgium introduces new rules on takeovers

By Tim Dickson in Brussels

THE shock waves from Mr Carlo De Benedetti's bold but unsuccessful bid for Société Générale de Belgique, the country's biggest holding company, have been felt again in Belgium, with the Cabinet's approval of new rules governing company takeovers.

Known affectionately as the "De Benedetti law," it lays ground rules for companies that launch takeovers and sets limits on the tactics target companies can employ to defend themselves.

The rules follow earlier legislation introduced in July stipulating that shareholdings of 5 per cent or more be made public.

The most important of the new changes ensures that bidding companies make an offer for all outstanding shares of publicly quoted companies, thereby ruling out the sort of partial offer made by the Italian businessman at the height of the battle for La Générale.

Unlike some countries, however, Belgium is not insisting that bids have to be triggered when a major shareholder exceeds a specific share stake.

Full details of the text, which has been inspired to some extent by British takeover rules and which follows closely the proposed European Community directive, has yet to be fully assessed by stockbrokers.

One said yesterday, for example, that while it was clear that bids could be resisted by issuing shares to friendly parties within certain constraints, the impact of the new rules on existing "poison pills" was less certain.

Asked whether the new law would affect the pace of takeover activity, he replied: "I don't think it will make much difference. The new rules are important and will make things a bit more difficult, but there are always ways of getting round the law in Belgium."

Colbepa, the Belgian holding company of France's Paribas group, said consolidated net profit jumped by 85 per cent to BF3.13bn (678.6m) in the first half of 1989.

Colonia ready to attack foreign markets

Haig Simonian on the way forward for Germany's second-biggest insurance group

Listening to Mr Dieter Wendelstadt, the blunt 59-year-old chief executive of Colonia Versicherung, the West German insurer, it is hard to understand why the stock market added more than a third to the company's value within hours of its takeover by Groupe Victoire, its French counterpart, being announced.

Mr Wendelstadt, a north German with a chemicals industry background who has run Colonia since 1973, has grounds to be cautious. Formal contracts between the two companies have only just been signed and the real brainstorming over who does what within the company has barely begun.

But the stock market may still be underestimating Colonia's hidden value - estimates for the price Victoire paid range from DM1,800 to DM3,000 a share, against the DM1,275 they were trading at yesterday.

Although Colonia is Germany's second-biggest insurer, with total premiums of about DM3.2bn (\$4.9bn) if non-consolidated subsidiaries such as Nordstern Allgemeine Versicherung and Kölnische Rückversicherung (Cologne Re) are included, the group falls under the shadow of Allianz, Europe's biggest insurer.

But Mr Wendelstadt says Colonia's policy of remaining an amalgam of middle-sized companies has paid off. By letting each member retain its own identity, the group as a whole has gained a bigger slice of the cake. "We can do more in the different markets we are

in if we do it as independent units," he says.

Nordstern has developed a strong transport business and art insurance, while Colonia itself specialises in general lines. Motor insurance accounts for 88 per cent of its total premiums, followed by liability with just under 25 per cent.

Specialisation is most evident at Cologne Re, where the peculiar nature of the re-insurance business, with premiums coming exclusively from primary insurers, makes the stress on independence all the more important.

Financially, the strategy appears to have paid off. Net profits at the general, life and re-insurance operations have all risen steadily in the past three years. But whether matters will change radically under French control is a subject Mr Wendelstadt appears reluctant to address.

"My job is to run a company," he insists. But his tone suggests the subject - or at least the way it is treated in the German press - remains touchy for an otherwise sober businessman.

In contemplating the future, Mr Wendelstadt is reassured by the close informal links that have existed between Colonia and Victoire. For the past 16 years he has been the chief agent for Victoire in Germany, while his now-retired counterpart at Victoire, Mr Michel Marchal, performed the same function on



Dieter Wendelstadt: 'Whoever has the majority has the say'

behalf of Colonia in France.

It is clear integration will be lengthy and joint committees have been formed to assess the best options. Mr Wendelstadt and Mr Claus Kleyboldt, chief executive of Nordstern, will join the board of the new Dutch holding company being established, while an unspecified number of Victoire designees will be appointed to the Colonia board.

While the German group clearly believes it will be left a free hand in running its business, there are already some clear areas for co-operation, with international business the most obvious.

While Victoire has a marked domestic leasing, Colonia is relatively strong outside Germany. About DM520m of the DM2.9bn total premiums at Colonia Versicherung alone

were generated outside Germany last year.

Mr Wendelstadt expects the strongest benefits to come in new foreign ventures, rather than from tampering with existing operations. "I prefer that we think about new things," he says, stressing the dangers of welding together the companies' existing international activities.

Italy and Spain, where Colonia is relatively weak, are obvious starting points, followed by the US and, later, Latin America and south-east Asia.

But nothing will change overnight. "This is an operation you must see in a 10-year dimension."

Eastern Europe could also prove promising. Last May Colonia bought a 12 per cent stake in Atlasz, a Hungarian travel insurer, in a tentative step towards what it sees as an increasingly important market.

Investment policy offers further growth potential. Victoire and Colonia already co-operate informally, with Mr Henri Kats, Victoire's finance boss, sitting in on Colonia's investment committee.

Additional steps could involve joint investments or greater co-ordination of the two companies' existing portfolios.

Again, Mr Wendelstadt stresses the importance of new structures. "We want to do something new, not just break our heads over re-organising our existing activities."

Surprisingly, however, he

has less to say about developing joint insurance policies. Rather than grand ideas about common retail products, Mr Wendelstadt identifies industrial business as being an early beneficiary of the two companies' link, with the ability to cover clients in each other's countries.

Special lines, such as travel, health and life insurance cover for corporate staff being transferred from one country to another, could follow.

What will the new relationship mean for Winterthur, the big Swiss insurer which bought a 37 per cent stake in Nordstern in 1987, undoubtedly in the expectation of gaining full control?

Mr Wendelstadt notes bluntly: "Whoever has the majority has the say, thank you very much. Why shouldn't we hang on to it. Nordstern is an essential part of our group and will stay there."

The French have agreed not to alter the shape of the Colonia group, but they would find it difficult to do so even if they changed their minds.

Such a step would make no sense financially. "Economically it's complete madness for all those involved," Mr Wendelstadt says. About 60 per cent of the profits from disinvestment would go in tax and the French would get only about half the remainder.

"They didn't buy an operation like Colonia just to sell bits tomorrow," he says.

Managers gain control of Revisuisse in buy-out

By William Duffin in Geneva

THE management of Revisuisse, Switzerland's fourth largest auditing group, has taken control of the company from Union Bank of Switzerland and Winterthur insurance in a leveraged buy-out. Price Waterhouse Switzerland is taking a minority stake.

Mr Peter Weibel, chief executive, said the move conformed with new European Community regulations stipulating that the active management of an auditing company must hold the majority of its shares. Switzerland is not a member of

the EC but Revisuisse, which has been the fastest growing Swiss auditing house in the last two years, is looking for an international market.

Its fee income rose by 24 per cent to SF77m (\$87m) in 1988 and it expects an increase of similar size this year.

No price was disclosed for the buy-out but Mr Weibel said all parties considered it to be a fair deal. The 30 partners will raise external loans.

Together UBS and Winterthur owned more than 66 per cent of the share capital.

Valloirec leaps to FF4.35bn

By John Burton in Stockholm

VALLOIREC, the French producer of steel tubes, yesterday produced a more than 100% increase in first-half profits to FF4.35bn (\$678m) on turnover up 21 per cent, writes William Dawkins from Paris.

Order books are so healthy that the group expects to maintain the current level of activity for the rest of the year. Net profits for the six months to June were FF232m after a FF132m depreciation charge, up from FF72.9m in last year's first half, after a FF137.5m charge.

The group attributed the improvement to world demand.

Alfa-Laval advances by 51% after eight months

By John Burton in Stockholm

ALFA-LAVAL, the Swedish drive equipment and process engineering group, yesterday reported a 51 per cent rise in profits after financial items to SKr791m (\$122m) for the first eight months of 1989. It forecast, however, that profits for the rest of the year would grow at a slower pace.

Sales climbed 22 per cent to SKr3,020m and Alfa expects the favourable trend to continue for the rest of the year.

Demand was strong in all sectors, with a high volume of new orders. Group orders at

end August amounted to SKr10,980m, a 18 per cent rise.

The food division saw the biggest sales increase, with turnover rising by 31 per cent to SKr2,220m. Two-thirds of the increase was due to the acquisition of two ready-cooked food companies, Koppens Machinefabrik in the Netherlands and Kramer & Grebe in West Germany.

The industrial division reported a 21 per cent sales increase, to SKr4,980m, while the agribusiness sector had a 15 per cent increase in sales, to SKr1,860m.



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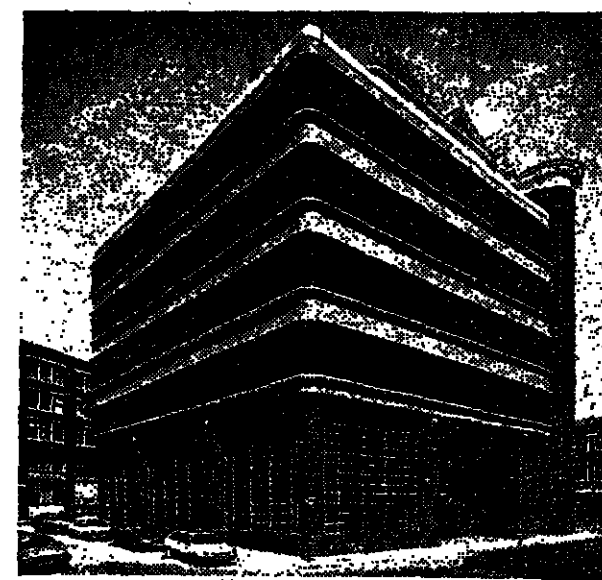
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INTERNATIONAL COMPANIES AND FINANCE

American Medical accepts reduced offer from IMA

By Anatole Kaletsky in New York

AMERICAN Medical International, the third-largest US hospital management group, agreed yesterday to a reduced buy-out price of \$26.50 a share from IMA Acquisition.

The troubled Los Angeles-based hospital company's decision followed last Friday's announcement that IMA had failed to find financing for its earlier offer of \$28 a share. IMA is a leveraged buy-out partnership backed by the wealthy Pritzker family of Chicago.

Its financing was being organised by First Boston, but fell through, partly as a result of the collapse of the junk bond market last month. As in several recent cases where junk bond financing has proved difficult to arrange, commercial banks have stepped in to provide a larger proportion of the buy-out debt than originally expected.

Under the terms of the amended agreement, IMA will pay \$26.50 in cash for up to 63m shares of American Medical, equivalent to 86 per cent of the hospital company's stock.

It will then exchange the remaining shares into 20 per cent of the common stock of a newly-formed company, IMA Holdings. Under the earlier offer, IMA was to pay \$28 in cash for 94 per cent of American Medical and convert the

remaining shares into a 10 per cent stake in the new holding company.

By lowering the cash payment and adding to the equity component that will be provided by American Medical's current shareholders, the acquisition group clearly hopes to improve its chances of finding adequate financing.

Banks led by Chemical Bank have committed themselves to providing \$1.078bn of senior debt and Chemical has said it is "highly confident" of syndicating a further \$609m. The bank loans would therefore cover 95 per cent of the \$1.687bn in cash required to buy out American Medical's present shareholders.

Previously the banks planned to provide 89 per cent of the buy-out cash. To refinance existing debts and pay the fees connected with the transaction, First Boston would now provide a further \$778m of subordinated debt, instead of the \$712m originally intended. Yesterday's merger agreement said that the Wall Street investment bank had now committed itself to these subordinated loans.

Nevertheless, the deal remained contingent on full financing being completed, a condition that seemed to refer to the bank syndication being arranged by Chemical.

Embraer prepares to pull out of profits tailspin

Confidence remains high at Brazil's state-owned aircraft maker despite setbacks, writes John Barham

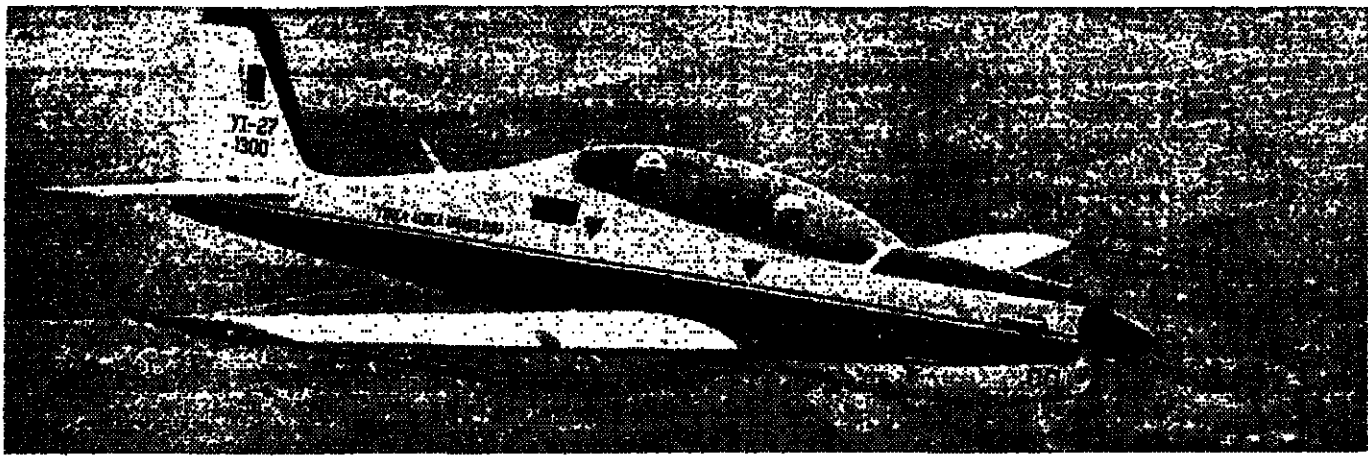
Embraer is one of the stranger beasts in the Brazilian corporate menagerie. It is a state-owned company run by military officers, operating in a competitive, high-technology sector. Against the odds, the group has escaped the overstaffing and feather-bedding rife at other Brazilian state companies to grow into a successful challenger in the civil and military aviation business.

Its successes in the military sector include sales of its Tucano trainer to Britain, while its AMX subsonic fighter is going into service with the Italian and Brazilian air forces. The company also claims leadership of the world commuter aircraft market.

For most of its 20-year life the company has seen annual increases in sales and profits. But now profits have stopped growing. The Air Force colonels in command at Embraer had spent too long building low-cost planes and too little time at financial engineering.

Mired in debt and shut out of the US, its main market, by threatened trade sanctions, the company reported a \$20m loss in 1988. This year, however, it hopes to rid itself of losses and even make a small profit.

Embraer sees its market growing well into the next century, but its fundamental problem is that its largest share-



Sales of military aircraft, including the Tucano trainer (above), account for 40 per cent of revenues at Embraer

holder, the Brazilian Government, is almost insolvent.

The Air Ministry, which controls the company, preferred to leave it starved of capital rather than sell to the private sector. The group, in turn, acted only after its financial difficulties became clearly insoluble.

It has been unable to raise foreign loans - the only source of long-term finance - because of the debt crisis.

Miraculously, Embraer managed to cover half the \$300m cost of its latest aircraft - the sleek 30-seat Brasilia - with expensive short-term loans. But by last December its short-term debt had risen to

\$350m, equivalent to two-thirds of annual sales.

Now, with help from First Boston, the US investment bank, it is putting together a \$410m loan and equity package to reorganise finances. Mr Adalberto Ferreira da Silva, Embraer's finance director, explained there was plenty of room to sell shares to the public without endangering the government's control of the company.

Brasilia holds 83 per cent of Embraer. Under Brazilian law a company can issue two non-voting shares for every voting share. That means a single shareholder - in this case, the Government - can control a

company with only 17 per cent of equity. As it is, the government holds 97 per cent of voting stock. Non-voting stock in state companies dominates local equity markets, but the public has little control over the companies' affairs.

Embraer has started offering non-voting stock with a local issue of convertible debentures, which should raise \$86m. It also plans to raise \$100m through a debt-for-equity swap.

International banks will swap their Brazilian loans at a discount for shares in Embraer, which will collect the debt's full face value in local currency from the original debtor.

The money will be used to reduce short-term debt and provide funding for the CBA-123 aircraft Embraer is developing jointly with FAMA of Argentina.

The company and First Boston are working on another scheme to raise \$250m for its next aircraft, a 45-seat jet passenger aircraft. They want to set up a participation fund in the US, which would sell shares to investors.

Mr da Silva said Embraer would sign a contract with the fund, granting members a commission on every aircraft sold outside Brazil. American fund members would also be entitled to US tax breaks.

Mr da Silva said Embraer's future was assured, in spite of its financial difficulties. The group claims to have won 40 per cent of the US commuter aircraft market, where its aircraft have gained a reputation for reliability and low cost.

Within three years both of the aircraft under development will be entering full production and boosting cashflow.

Embraer has a three-year backlog of orders for the Brasilia and 200 letters of intent signed for the 45-seater jet aircraft, which is still on the drawing boards.

The AMX fighter, developed jointly with Aeritalia and Aeritalia of Italy, is entering full production. Together with the Tucano, military sales account for 40 per cent of revenues, which reduces dependence on the civilian market.

Embraer expects to achieve financial stability by 1993. Sales by then should be approaching \$1bn a year, compared with a forecast of \$700m this year.

By then the company's earnings should be up to 10 per cent of sales, rather than the meagre 2.7 per cent achieved in 1986 and 1987, the last two years for which Embraer showed a profit.

"Who knows, by 1993 Embraer could even be listed on world stock exchanges," Mr da Silva mused.

Hewlett-Packard aims to extend industry horizons

By Louise Kehoe in San Francisco

HEWLETT-PACKARD aims to leapfrog competitors in the personal computer market with the launch today of the highest-performance personal computer to date, carrying personal computer power well into the realms of mini-computers.

Beating IBM, Compaq and others, Hewlett-Packard will unveil the first personal computer from a leading manufacturer to be powered by Intel's latest 486 microprocessor.

The new Vectra 486 will be 33 per cent faster than HP's current Vectra 386, the company said.

The new HP personal computer is also the first to use the Extended Industry Standard Architecture (EISA), developed collaboratively by nine IBM-aligned companies in the personal computer market as an alternative to the IBM Micro Channel.

EISA is a standard for inter-


nal communications between the various parts of a micro-computer. It enables faster data throughput for high-performance applications such as computer-aided design, or graphics simulations.

The cost of the new HP personal computer ranges from \$14,000 to \$20,000, establishing a new high for such products.

The performance and price of the new personal computer overlap significantly with those of computer workstations, blurring an already vague distinction between the general-purpose personal computer and workstations which have been aimed primarily at scientific, engineering and financial analysis applications.

In a move towards linking its personal computer and workstation product lines, HP said it would use EISA in future workstation products.


THE NAME BEHIND THE NAMES



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Placing of a further issue of £35m 11½% Loan Stock 2003 and related currency swaps.

April 1989



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Drayton Asia Trust plc

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April 1989

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Schuldverschreibungen — Serie 185 — 1985/1995

For the three months 10th Oct. 1989 to 9th Jan. 1990 the notes will carry an interest rate of 7.05% (Flot less 0.10%) per annum with a coupon amount of DM 99.38 per DM 5,000,— note. The relevant interest payment date will be 10th Jan. 1990.

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BRADFORD & BINGLEY BUILDING SOCIETY

Floating Rate Notes Due 1998

Interest Rate	15½% per annum
Interest Period	6th October 1989 8th January 1990
Interest Amount per £10,000 Note due 8th January 1990	£369.52

Credit Suisse First Boston Limited
Agent Bank

BANK OF NEW ZEALAND
Cayman Islands Branch

NZ \$425,000,000
Floating Rate Notes 1992

For the three months 8th October, 1989 to 8th January, 1990 the Notes will carry an interest rate of 13.31727 per cent per annum.

Interest payable on the relevant interest payment date, 8th January, 1990 will amount to NZ \$166,009.80 per NZ \$5,000,000 Note.

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October 4, 1989

\$170,000,000

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Euro Commercial Paper Program

Barclays de Zoete Wedd Limited acted as advisor to Comdisco, Inc. and, in addition to the undersigned, acts as a Commercial Paper Dealer in this program.

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INTERNATIONAL COMPANIES AND FINANCE

Inquiry 'not to blame' for delay in Bond results

THE NATIONAL Companies and Securities Commission (NCSC), Australia's corporate watchdog, has denied Bond Corp Holdings' claims that it is responsible for delays in the release of Bond's accounts, Renter reports.

Bond Corp's share price fell 4 cents to 28 cents yesterday, with stockbrokers blaming fears that the hold-up in the publication of the accounts could also postpone the disposal of Bond's brewing business to New Zealand's Lion Nathan group.

The NCSC said it rejected Bond Corp's explanation that its earnings report for the year ended June, 1989, due to be released by September 30, had been delayed by an NCSC inquiry.

"None of the officers or directors of Bond Corp or its subsidiaries has yet been required to attend the hearing," the commission said. Bond Corp should complete its audit without further delay, it added.

The inquiry is into dealings involving Bond Corp, the 58 per cent-controlled Bell Resources group and Bond International Gold.

Bond Corp declined to comment on the commission statement, but earlier said the delay to the accounts could in turn hold up registration of the formal documents for the brewing deal beyond the October 18 deadline to which the company had initially agreed.

Banque Franco Portugaise loses autonomy

BANCO NACIONAL Ultramarino of Portugal has been asked by the Bank of France to take over management control of Paris-based Banque Franco Portugaise, Renter reports.

The central bank said in a brief communique: "This decision was prompted by the fact that the bank was no longer being managed under normal conditions." A Bank of France official indicated that the problem involved a change in senior management, but declined to elaborate.

Banco Nacional Ultramarino owns 94 per cent of Banque Franco Portugaise. The Bank of France said Ultramarino's business activity and client base equipped it to manage Banque Franco Portugaise.

Foreign banks in Tokyo up in arms

By Stefan Wagstyl in Tokyo

EUROPEAN BANKERS in Tokyo are up in arms at an attempt by the Brussels-based Federation of EC Banks to put pressure on the Japanese authorities for regulatory reforms.

In a report recently presented to the European Commission in Brussels, the federation demanded various reforms of rules it claimed discriminated against foreign banks in Tokyo. The body hoped the study would help the EC in forthcoming negotiations in the Uruguay round of the General Agreement on Tariffs and Trade (GATT), where financial liberalisation is on the agenda.

However, some foreign bankers in Tokyo say they were not consulted about the report. "It's nonsense. Some of it is factually not true," said one. "The things they have asked for have already been changed or else they're irrelevant. The barriers here are cultural, not regulatory."

Foreign bankers agree with the Bank of Japan, which last week rejected the criticism saying that it did not discriminate



Sir Jeremy Morse, head of Federation of EC Banks

against foreign banks and had received no complaints from foreign bankers about the points raised in the report.

The federation is a private grouping of EC banks, which is headed by Sir Jeremy Morse, chairman of Lloyds Bank. The three items in its report that have annoyed foreign bankers in Tokyo are demands for the

abolition of a secured call market for an end to special low-rate loans to Japanese banks by the Bank of Japan; and for the abolition of the role of Tanshi, financing companies, in interbank dealings.

Foreign bankers say the secured call market where funds can be borrowed against security of promissory notes, is open to most large foreign banks. So it is not run in a discriminatory way.

Nor do foreign bankers think low-rate loans to Japanese banks from the central bank are unfair. They say that Japanese banks have to deposit large amounts of securities with the central bank to win access to the low-rate loans. So there is no advantage in using them.

As for Tanshi, foreign bankers say these operate in a similar way to discount houses. The federation may be right in claiming that they allow the central bank to control the market tightly, say foreign bankers, but Japanese banks operate in the same conditions.

So abolition would not help foreign banks.

Business conditions for most foreign banks in Tokyo have steadily worsened in the 1980s, due to the growing strength of Japanese banks and the onset of deregulation, which removed privileges as well as barriers. For example, foreign banks lost a lucrative near-monopoly of foreign currency loans. Pre-tax recurring profits of the 58 foreign banks totalled ¥12.5bn (\$88m) in the year to March, down 57 per cent from the previous year, according to the Japanese branch of KPMG Peat Marwick, the accountants.

This was the largest decline in profits in the past five years and was largely caused by the deregulation of the unsecured call market. Japanese banks had previously been very much kept out of this market by the Bank of Japan on the grounds that they should borrow in the secured call market because it was safer. But they were allowed in last November and the cost of borrowing rose, squeezing foreign banks' margins.

Rescue for Norwegian bank

By Karen Fossil in Oslo

A RESCUE plan for Sparebanken Nord Norge, a troubled medium-sized Norwegian savings bank which has about 75 per cent of the banking business in northern Norway, has been put forward by the central bank and the savings banks' Guarantee Fund.

Deepening losses, which have threatened the bank with insolvency for more than two years, reflect the economic crisis surrounding Norway's northern and coastal areas where the fishing, fish-farming and transportation sectors have remained severely depressed.

In the first eight months of

this year the bank suffered losses on loans and guarantees of Nkr546m (\$78.4m) compared with Nkr619m in the same period last year. Net losses totalled Nkr246.9m, against Nkr495.8m.

In a recent audit, Price Waterhouse concluded that the bank's long-term capital requirement was Nkr220m.

The main points in the rescue package are:
 • Outstanding loans of Nkr2.9bn to the central bank are to be reduced by Nkr500m.
 • The Guarantee Fund will provide a Nkr500m cash injection to strengthen primary capital.

• Nkr250m will be advanced by the fund to launch a relatively new hybrid share/bond financial instrument introduced last September to generate new equity capital.

• Nkr100m from the fund will be allocated to acquire and redeem the bank's subordinated debt.

• Nkr650m will be allocated as a guarantee for the bank's total liabilities.

The rescue package follows a Nkr600m emergency capital injection made in September, which was combined with Nkr200m in subsidies over a five-year period allocated by the central bank.

N Zealand meat deal to go ahead

WAITAKI INTERNATIONAL, New Zealand's biggest meat producer, has been cleared to take up to 25 per cent of the Auckland Farmers' Freezing Co-operative (AFFCO), Renter reports.

New Zealand's anti-trust Commerce Commission said it had cleared AFFCO to buy Waitaki's North Island meat processing and wholesale business.

The purchase is part of a large restructuring, announced last month, of the North Island meat processing industry. Goodman Fielder Wattle and Fletcher Challenge each hold about 29 per cent of Waitaki.

The Commerce Commission said the North Island purchase was subject to AFFCO selling Waitaki's half-share in the Kaiti works to a party not associated with AFFCO, by February.

The sale of the half-share would follow negotiations with Kaiti's other half-owner Weddell Crown Corp, the Commerce Commission said.

Foreshadowing the restructuring last month, the two companies said the move would allow farmers, members of AFFCO, eventually to buy back all the Waitaki shares.

Waitaki has already closed two South Island slaughter works and sold off a further two in the middle of last year.

Aker profits rise sevenfold to Nkr391m

By Karen Fossil

AKER, the big Norwegian industrial group, yesterday reported that pre-tax profits, before financial items, in the first eight months of this year had soared more than sevenfold to Nkr391m (\$56.2m) from Nkr51m.

Mr Tom Rund, deputy managing director, who also announced plans to change Aker's share structure, said the positive profits performance stemmed primarily from increased profits from Castle Cement of the UK and from Norwegian Contractors, the group's offshore oil platform designer and builder.

The cement division, which includes Castle, saw profits rise to Nkr279m from Nkr169m, with sales increasing to Nkr2.25bn from Nkr2.11bn.

Aker Offshore posted profits of Nkr218m on sales of Nkr3.48bn versus Nkr121m and Nkr3.55bn a year ago.

Group operating profits more than doubled to Nkr666m for the eight months from Nkr318m, while total turnover decreased slightly to Nkr9.7bn from Nkr10.3bn.

For the whole of 1989, profits after financial items are expected to emerge at Nkr550m, despite what Aker describes as

a weak domestic market for building materials.

The company plans to change its share structure to strengthen group capital base and meet foreign interest in Aker's shares. Shares are to be split into two classes, voting and non-voting, and the company will establish "free shares," which can be owned by Norwegian or foreign investors.

These will comprise one-third of Aker's voting capital. The remaining two-thirds which are called "fixed shares," also with voting rights, can be held only by Norwegians.

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NOTICE IS HEREBY GIVEN, that the above Bonds are subject to redemption at the option of the Bondholder on January 17, 1990 at 100% of the principal amount thereof.

To exercise the option in respect of any Bond, a Bondholder must irrevocably deposit Bonds to be redeemed, together with all unannounced coupons operating thereon, with any Paying Agent against receipt during the period November 18, 1989 through December 18, 1989, both inclusive. Payment of Bonds to be redeemed will be made at the U.S. dollar equivalent of the principal amount of the Bonds unless the Bondholder elects to receive N.Z. dollars in payment thereof pursuant to Condition 8 of the Bonds. Coupons payable on January 17, 1990 should be detached and presented in the usual manner.

NEW ZEALAND FOREST PRODUCTS FINANCE N.V.

Dated: October 10, 1989

PAN-HOLDING SOCIETE ANONYME LUXEMBOURG

The half-yearly report of the company will be available at the "Societe de la Bourse de Luxembourg" and the "Societe des Bourses Francaises" from October 24, 1989.

As of June 30, 1989, the net assets were as follows:
 - Net cash assets 9.68%
 - (of which 1.15% gold bullion)
 - Investment portfolio and long-term investments 90.32%

(Items exceeding 5%)
 United States of America 22.3%
 France 12.0%
 Great Britain 10.3%
 Japan 8.3%

The unconsolidated net asset value as of September 30, 1989 amounted to USD 317,191,573.86, that is USD 515.76 per share of USD 100 par value, increasing by 13.4% since December 31, 1988, dividend excluded. The consolidated net asset value amounted to USD 527.26 at the same date.

INTERNATIONAL CAPITAL MARKETS

Qatar oil group ready to sign delayed Euroloan

By Hunter Reynolds in Dubai

QATAR GENERAL Petroleum Company (QGPC) plans to sign its long-delayed \$400m syndicated Euroloan...

The bankers have expressed anger at the delays. "It has taken the gift of the deal" commented one banker...

Local bankers say the row reflects Qatar's inexperience in international capital markets. "Those directly involved included local lawyers, the Central Bank, the Ministry of Finance and QGPC..."

F&CM to launch Mexico fund

By Hilary de Boer

FOREIGN & Colonial Management, the London-based fund management group, is making its second foray into Latin America with the launch of a \$50m Mexico fund.

Mr Audley Twiston Davies, director at FCM, said his group had been investing in Mexican stocks before the liberalisation moves...

The current economic picture helped Mexico an attractive investment, he said. Inflation fell to 16.9 per cent in August - having been as high as 179 per cent in February last year - and was forecast to drop to 12 per cent next year.

FT INTERNATIONAL BOND SERVICE

Table with columns: Country, Currency, Rate, etc. Lists various international bonds and their yields.

Table with columns: Country, Currency, Rate, etc. Lists various international bonds and their yields.

Financial Times provides a comprehensive list of international bonds, including details on interest rates and yields for various countries and currencies.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday 9 October 1989. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Large table with columns: Country, Currency, Rate, etc. Lists exchange rates for numerous countries against major currencies.

Special Drawing Rights October 6, 1989 United Kingdom £1.26733 United States \$1.26634 Germany West D.M. 2.40545 Japan Yen 180.203 European Currency Unit Rates October 9, 1989

TRADE INDEMNITY THE CREDIT RISK MANAGERS

Advertisement for Trade Indemnity, featuring a logo and text about credit risk management and export credit insurance.

Advertisement for Venture Capital, offering financial times proposals to publish surveys on 30th November 1989.

Advertisement for Banco Bilbao Vizcaya, detailing a second quarterly dividend of 1989 and conversion options for shareholders.

Advertisement for Exhibitions, featuring 'China '89' - 1. Chinesische Wirtschafts-, Kultur- und Technologiausstellung.

Advertisement for Aircraft for Sale, listing various aircraft models and prices.

Advertisement for British Aerospace, listing various aircraft models and prices.

Advertisement for Canada, offering financial times proposals to publish surveys on 7th November 1989.

Advertisement for General Motors Corporation, detailing a dividend declaration of 12th September 1989.

Advertisement for Hotels & Licensed Premises, listing various properties for sale or lease.

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Advertisement for Stephen Dmbar-Johnson, offering financial times proposals to publish surveys on 7th November 1989.

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INTERNATIONAL CAPITAL MARKETS

US holiday and future Italian issue hit trade

By Andrew Freeman

EUROBOND markets lacked direction yesterday, with the US holiday and extensive preparations for Italy's forthcoming jumbo issue occupying syndicate officials. New-issue activity was patchy, with several targeted deals emerging.

INTERNATIONAL BONDS

Last week's relaxation of duration restrictions on Euro-French franc deals when it issued a FF300m deal for Volvo Group Finance.

The one-year, dual-currency issue offered investors a 13 per cent coupon and carried a borrower's option to redeem the proceeds in either francs or US dollars.

An official said the distribution of the paper was treated on a private placement basis and that the bid price was around less than 1%. A syndicate of co-lead managers was formed to underwrite the bonds.

A Fiat/BNM deal for the European Investment Bank was launched by La Caja de Ahorros de Madrid, the first

time such a mandate has been won by a savings bank. There was good demand for the bonds from European investors chasing the attractive yield. The lead manager was quoting the paper inside fees at 99.50 bid, to yield around 11.25 per cent. Proceeds were swapped, but the lead manager would not elaborate.

The Republic of Austria Schöbn three-year floating-rate deal brought on Friday by Österreichische Länderbank, with a Schöbn International bond tranche co-ordinated by Credit Suisse First Boston, was trading steadily.

The bonds immediately met good demand from investors after the launch on Friday when the deal was increased from Schöbn, with the International tranche increased from Schöbn. It marks the first time Austria has borrowed below the Vienna interbank offered rate - the bonds pay Vitor less 1/2 point. Three-month Vitor is currently 8.5 per cent.

It is also the first time such an issue will be traded in London, while the bonds were quoted yesterday at Friday's closing level of 99.81 bid, well inside full underwriting fees of 23 basis points.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Borrower, Amount, Coupon %, Price, Maturity, Fees, Book runner. Includes entries for French Finance, WestLB Finance, and others.

In Switzerland yesterday, while there were no new issues, traders reported a consolidation of recently improved sentiment. Prices were a touch firmer in low volumes.

The SF200m seven-year deal for CWT launched by UBS last week was trading comfortably around less than 1 bid, a gain of 1/2 point on the day amid a wider shortage of plain vanilla paper.

was trading 1/2 point above Friday's close in the secondary market at 146 1/2 bid, against the issue price of 148.

In Germany, prices gained up to 1/2 point in most recent new issues, helped by new-through from the US market's performance on Friday.

The Japanese Ministry of Finance noted that the underlying share price had increased by more than 44 per cent in the last three months, above the 30 per cent limit.

Elsewhere, late in the day, Fuji International brought a Euro50m deal for Compagnie Bancaire. The bonds offered a 9 1/2 per cent coupon and were priced at 100.80.

Gilts fall as sterling moves below crucial DM3 level

By Rachel Johnson in London and Janet Bush in New York

UK GOVERNMENT bonds followed the downward flight of sterling on the foreign exchanges yesterday, finishing a point lower after a day of trading dominated by the weakness of the currency.

"Clearly the trigger point was sterling," a trader said. "As sterling came through to DM2.98 the gilts market came

of the pound on the foreign exchanges. The benchmark Treasury bond due 2008/07 closed almost a point lower to yield 10.16 per cent, while the longer-dated 9 per cent 2008 Treasury closed almost a full point down to yield 9.64 per cent.

THE YIELD on the Treasury's benchmark long bond fell below 8 per cent yesterday, reflecting belief that the US Federal Reserve had resumed monetary easing.

Trading was very subdued in New York as most banks were closed for the Columbus Day and Yom Kippur holidays and few trading desks were quoting prices. In London Treasury bond trading, the long bond was quoted 1/2 point higher for a yield of 7.99 per cent and short-dated maturities were quoted around 1/2 point up.

Fed funds closed at 8 1/2 per cent on Friday. It appears that the Fed initiated an easing

BENCHMARK GOVERNMENT BONDS

Table with columns: Coupon, Red Date, Price, Change, Yield, Week Ago, Month Ago. Includes UK Gilts, US Treasury, Japan, Germany, France, Canada, Netherlands, Australia.

London closing. *New York market closed; latest available prices. Yield: Local market standard. Prices: US, UK in \$bills, others in decimal.

Technical Data/ATLAS Price Source

move last week which will perhaps take the Fed funds rate target to 8% per cent from 9% per cent. The rate dipped on Friday despite a draining operation through five-day matched sales, suggesting strongly that

at the end of last week, it is now looking likely that the Fed eased in concert with interest rate rises in Europe.

The dollar held steady yesterday and was quoted at 142.80 and DM1.8665 in late New York trading. Currency trading in New York was quiet because of the holidays.

The key economic figure this week comes on Friday with the producer prices for September. Forecasters are looking for a rise in the producer prices index of 0.5 per cent.

GERMAN Government bonds had sharp mark-ups of 30 to 40 pfennigs at the day's fixings, which dealers attributed to relief that uncertainty over interest rates was over.

The day was dominated by the launch of the DM30m 10-year Federal bond, which was priced at 100.26 with a 7 per cent coupon. As a result, the bond rapidly gained a quarter of a point.

GOVERNMENT BONDS

lower and there was a degree of stability at DM2.97. At these lower levels, the market had a slight rally - to the relief of the market makers who had bought stock at Friday's higher prices. There was some volume of selling in medium-dated, 10-year stocks. The market is fairly confident that the Chancellor will not raise base rates further, despite the poor performance

Shearson to contract operations in Australia

By Our Financial Staff

SHEARSON LEHMAN Hutton Australia is to drop out of the Australian interbank foreign exchange market and Australian-sourced broking of US equities to concentrate on investment banking and corporate finance.

Although the Australian unit started up in 1987, Mr Ken Allen, the managing director, said intense competition and shrinking profit margins in the two areas had led to a rethinking of strategy. An increase in the number of foreign commercial banks, investment banks and brokerages has exacerbated the competition for business.

The interbank foreign exchange market and Australian-sourced broking areas are "suffering from continuing increased competition and shrinking profit margins," Mr Allen said. "If we really wanted to compete in these areas we'd have to apply a lot more resources."

Shearson Lehman, part of American Express, started business in Australia in 1987. It has been a relatively small player in Australian foreign exchange, with a team of four people. "It's a very competitive and perhaps overbanked market," Mr Allen said.

As Shearson Lehman's investment banking business had been particularly successful, the company had decided to concentrate on that. The refocusing follows a review of Shearson Lehman's worldwide operations, he added.

The company found that investing in US equities were increasingly managing transactions from overseas. "We will service the foreign exchange, US equity and financial futures requirements of our institutional clients from our major locations in New York, Tokyo and London," Mr Allen said.

That "appears to be the most appropriate course of action given the preference of large institutions to look for advice directly from the offshore capital markets," Mr Allen said.

Of the 20 staff who have lost their jobs, nine will be offered positions elsewhere and the rest redundancy packages.

Reverberations from 1987 crash continue to hit Australian SE

By Chris Sherwell in Sydney

CONTINUING reverberations from the October 1987 crash brought a further setback to Australia's stock market in the year to June, to judge by figures contained in the latest annual report from the Australian Stock Exchange.

The figures take no account of the rally over the past three months, but reflect the gloom which hung over the market for much of fiscal year 1988-89 - despite a sharp 35.6 per cent increase in net earnings of companies contained in the All Ordinaries index.

Average daily turnovers, measured both by volume and value, slipped below levels seen two years earlier. In volume, the figure was 102m shares, compared with 148m in 1987-88, and 145m in 1986-87. In value, turnover was A\$196m, down sharply from A\$270m the previous year.

A similar trend was evident with capital raisings. These totalled A\$12bn (equity and debt) in 1988-89, compared with A\$14.6bn in 1987-88 and A\$17.4bn in 1986-87.

New listings, at 73, were the lowest since 1984, while delistings totalled 137, almost double the previous largest figure of 77, recorded last year.

Overall market capitalisation stood at A\$209bn for main board equities, down from A\$212bn the previous year and a peak of A\$255bn recorded in the year to June 1987.

But the market rally of the past three months has since lifted market capitalisation to higher levels - A\$240bn in August, and A\$238bn in September - and the All Ordinaries index from 1,521 in June to around 1,770-1,776 currently.

This is marginally higher than the June 1987 level of 1,764, but still well short of its September 1987 record of 2,305. Unlike Japan, the US and the UK, Australian share prices have failed to come anywhere near their pre-crash high levels.

A breakdown of movements in particular indices showed that insurance stocks fell further over the year to June, by 30 per cent, followed by developers and contractors (down 25 per cent) and gold stocks (down 22 per cent).

The largest gains were shown by solid fuels (up 17 per cent) and transport stocks (up 16.7 per cent). Interestingly, entrepreneurial stocks also rose, by 8.5 per cent.

Malaysia raises minimum required capital for banks

MALAYSIA HAS announced revised minimum capital funds for all local and foreign financial institutions, raising them by 4m ringgit to 10m because of their expansion in operations, Reuter reports from Kuala Lumpur.

Mr Jaffer Hussein, governor of Bank Negara, Malaysia's Central Bank, told reporters that the new working funds of 38 commercial banks in the country would have to be raised to 20m ringgit from the current 10m. Merchant banks would have to increase their net working funds to 10m ringgit from the present 5m, and finance companies to 5m from the current 1m.

Mr Jaffer said all the banks and financial institutions had been told to raise their minimum capital funds. "This he stated at a news conference to announce the enforcement from October 1 of the Banking and Financial Institutions Act, which forces foreign banks to incorporate locally."

Mr Jaffer said Malaysia encouraged large foreign banks to set up their equity control and small ones to merge with Malaysian banks, but would not force them to give up their 100 per cent foreign shareholdings after the incorporation.

He said foreign banks which reduced their holdings to less than 50 per cent would enjoy all the privileges of local banks, such as being allowed to open more branches.

LONDON MARKET STATISTICS

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FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

Table with columns: EQUITY GROUPS & SUB-SECTIONS, Monday October 9 1989, Fri Oct 6, Thu Oct 5, Wed Oct 4, Year Ago (approx). Lists various equity groups like CAPITAL GROUPS, CONTRACTING, ELECTRICIANS, etc.

FIXED INTEREST

Table with columns: PRICE INDICES, Mon Oct 9, Day's change, Fri Oct 6, etc. Lists various fixed interest instruments like British Government, 1-5 years, 5-15 years, etc.

RISES AND FALLS YESTERDAY

Table with columns: Rise, Fall, Same. Lists various market categories like British Funds, Corporations, Industrials, etc.

LONDON RECENT ISSUES

Table with columns: Issue, Amount, Date, High, Low, Closing Price. Lists various equity issues like 120 F.P., 500 F.P., etc.

FIXED INTEREST STOCKS

Table with columns: Issue, Amount, Date, High, Low, Closing Price. Lists various fixed interest stock issues like 100 F.P., 200 F.P., etc.

RIGHTS OFFERS

Table with columns: Issue, Amount, Date, High, Low, Closing Price. Lists various rights offer issues like 50 F.P., 100 F.P., etc.

LONDON TRADED OPTIONS

Large table with columns: CALLS, PUTS, Bid, Offer, etc. Lists various traded options like FT-SE 100, BSE, etc.

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IT TAKES

AN EDGE

UK COMPANY NEWS

Crescent boss poised to become first black African to run a quoted UK company

Crescent Africa plans UG stake to inject £1.53m

By Andrew Sojgar

MR KOJO NYANTEKYI, a Ghanaian former dentist, is poised to become chairman of United Guarantees, the fuel distribution, heating engineering and energy group, which last year lost £3m.

Mr Nyantekyi, 41, plans to take a large stake in UG through his private family-controlled company, Crescent Africa, which trades between Africa, Europe and the US. If he succeeds, it is thought he will be the first black African businessman to run a quoted British company.

The move has been proposed to provide UG with extra working capital of £1.53m, before expenses. Crescent is to subscribe for 20m new ordinary shares at 5p and existing shareholders will be given the opportunity to subscribe for a further 10.5m of the new

shares, on the basis of two new shares for every nine held. UG shares yesterday closed at 8.5p, down 2p.

If all existing UG shareholders subscribe for new shares, Crescent's stake in the company will be 25.7 per cent. However, Crescent is underwriting the offer and if it is required to take the maximum number of shares to which it could become entitled, its holding would amount to 39.3 of the enlarged share capital.

Subject to shareholders' approval, Mr Nyantekyi will become chairman of UG and Mr Peter Delf, a director of Crescent, will be finance director. Mr Peter Stringer, who joined UG in April, will remain as group managing director.

Mr Nyantekyi said he would examine all UG's activities carefully, but he was particu-



Kojo Nyantekyi (left), Crescent chief executive, and Peter Stringer, UG group managing director

larly interested in its UK fuel distribution business and its chemicals side, which distributes Du Pont specialist additives for refinery chemicals.

The deal is conditional on the successful disposal of UG's small tools division to UK Tools, which was agreed on September 29, and on the Takeover Panel waiving any requirement for Crescent to

make a general offer.

For the last few months, Mr Nyantekyi has been laying siege to Aberfoyle, the overseas trading company with Zimbabwean interests, in which Crescent has a 27 per cent stake.

Mr Nyantekyi said that in spite of the deal with UG, he intended to keep his stake in Aberfoyle and to maintain

pressure on the existing management to change direction. Crescent has urged Aberfoyle to bring in outside investors to its Zimbabwe oil plantation at Mwend and to diversify outside Zimbabwe.

Crescent made a pre-tax profit of £150,000 in 1988 after a loss of £900,000 the previous year caused by investment losses in 1987's crash.

Aberfoyle rises 66% to £1.54m

A SUBSTANTIAL improvement in its industrial activities and increased profits on the disposal of investments contributed to higher interim profits for Aberfoyle Holdings.

On turnover up from £3.82m to £4.56m pre-tax profits improved nearly 66 per cent to £1.54m (£929,000).

Mr Ian Coates, chairman, said that the result reflected the achievements of the new management team and the improvement would continue in the second half.

The performance of each of the industrial divisions had improved although the agricul-

tural divisions continued to incur losses. However, changes in the management of Kinyiro Estates had brought slow but steady progress. Income from investments was lower, associated with the continuing disposal of the investment portfolio, but results from the property sector had improved, he said.

In 1988 Aberfoyle set up the Mwend Development Corporation (MDC), to develop a 12,000-hectare oil palm plantation in the lowveld of Zimbabwe. The Manyuchi Dam, which will provide the irrigation water for the project, was

completed in December 1988.

In July this year Aberfoyle made a rights issue to raise £1.07m for investment in the project and to help the company to meet certain sterling commitments arising out of MDC. More active interest on the part of prospective investors was now being generated, Mr Coates said.

After tax of £332,000 (£32,000) and minorities of £387,000 (£315,000), earnings per share came out at 1.39p (1.2p). An extraordinary gain of £103,000 (£15,000 loss) resulted from appreciation of the Zimbabwean dollar against the pound.

Mrs Fields achieves a sharp reduction in losses

MRS FIELDS, the USM-quoted cookie and other speciality foods producer and retailer, reported sharply reduced losses in the six months to June 30 from \$15.06m to \$1.31m (£228,000). Last year there was an exceptional \$15.4m to cover store closures.

The board said the traditional stronger second half had started well and it was anticipated that cash flow for the full year would exceed the company's capital expenditure requirements and may allow

some additional repayment of long term debt.

They said that as an indication of the continuing trading improvement, if current trends were maintained it was the intention of the board to resume dividends with a payment next June.

Turnover in the period, excluding that of an affiliate, was \$20.12m (\$22.82m); interest was higher at \$4.22m (\$2.8m) and the net loss per share emerged at \$0.01 (\$0.10).

New product behind S&U's 38% rise

THE INTRODUCTION of a new credit facility helped S&U Stores increase interim pre-tax profits by 38 per cent. Mr Derek Coombs, chairman, said that its Premier Loan had been well received and was proving attractive.

In the six months to the end

of July this Birmingham-based consumer credit, television rental and hosiery manufacturing company reported profits of £1.07m, against £775,000. Turnover rose from £18.15m to £20.42m, an increase of 13 per cent.

Mr Coombs added that the

company was continuing to expand its range of services by researching into new markets.

After tax of £375,000 (£272,000) earnings per share were 6.73p (4.64p) or 6.46p (4.47p) fully diluted. The interim dividend is being raised from 1.25p to 1.5p.

Norex US offshoot in black

Norex, the UK shipping and insurance group, reported a return to the black in the year to end-June at Norex America, its US subsidiary.

The profits figure of \$13.8m (£2.5m) compares with a loss of \$3.9m last time and came from turnover reduced from \$59.5m to \$55.2m. Earnings per share were \$3.07 (\$0.93 losses).

Mr Kristian Slem, the chairman, said the results included profits of \$1.08m and revenues of \$54.6m from the operations of its cruise business, Bermuda Star Line, prior to its sale in May, and a gain of \$11.9m on disposal of its assets.

The remaining earnings were from the interest on the company's substantial cash.

FKB to pay maximum \$22.5m for US medical consultancy

By Nikki Taft

FKB GROUP, the acquisitive sales promotion and marketing company, is buying a New York-based medical and health-care marketing consultancy, called Audio Visual Medical Marketing, for a maximum of \$22.5m (\$14.25m).

AVMM, together with its two associate companies - Pharmaceutical Services International and Data Med Communications - specialise in providing marketing support for pharmaceutical products and for new product launches. Clients range from Glaxo to the likes of Ciba Geigy, with the three largest customers - Glaxo,

Warner Lambert and Parke Davis - accounting for about 45 per cent of the business.

The company, which was formed in 1978, made a pre-tax profit of \$946,000 in 1988 (after adjusting for directors' remuneration), with annual sales running at around \$10m. The vendors have warranted that net assets at completion will be at least \$1.15m.

The initial consideration is \$3.5m, of which \$500,000 is being satisfied in FKB shares, which the vendors have agreed to retain for at least 18 months. The remainder comes in loan

notes, which are realisable in January 1990.

Additional stage payments may also be made, dependent on average post-tax profits in each of the four years to end-December 1992. The maximum additional consideration would be \$18.5m. At the option of FKB, one-fifth of this sum could be satisfied in the FKB shares - again to be retained by the vendors for at least 18 months.

FKB says that the acquisition will take the company into a specialised area, which it would have difficulty developing otherwise.

WB £6m rights and purchases

By John Riddling

WB INDUSTRIES, the Midlands-based manufacturer of springs and presses, yesterday announced the acquisition of two spring manufacturers and a five-for-two rights issue to raise about £7.5m.

The acquisitions are the latest and largest step in the restructuring of the group after it came under new management in April when Mr Graham Avery replaced Mr David Cooper-Smith as chairman. Since then, the capital structure has been rationalised and a number of spring manufacturing companies have been acquired.

WB is buying Elson & Robbins, which supplies spring units to bed manufacturers and makes vehicle seats, and CMT Springs, which makes

coiled springs. WB is also taking a 75 per cent stake in Infotock, a company which has entered into a conditional contract to acquire a specialist gearbox business and certain assets of Bus Engineering group.

The combined consideration for the acquisitions is to be satisfied by a payment of about £4.4m in cash and the issue of 2.04m new shares.

In 1988, E&R, which is by far the largest of the acquisitions, achieved pre-tax profits of \$964,000 on sales of £15.44m. The fall in profits from £1.65m in 1987 reflected production difficulties following a change in specification of foam raw materials and the costs incurred in the modernisation of its bed spring factories.

The size of E&R, the turnover of which is almost five times larger than that of loss-making WB, means that the acquisition is regarded as a reverse takeover under stock exchange regulations. Shares have been suspended at 75p since September 15 when plans for the acquisitions were announced.

The cash element of the consideration will be met through the rights issue. Shares are priced at a deeply discounted 25p, reflecting the fact that the rights issue is not underwritten.

Mr Avery said that "the acquisitions represent a major step forward by the company under its new management to become a market leader in the spring industry."

Heywood Williams £7.5m acquisition

By Clare Pearson

HEYWOOD WILLIAMS, the glass and aluminium product specialist, is adding to its interests in plastic extrusion with the purchase of Gloucester-based Glostar Plastics for a maximum consideration of £7.5m in cash.

Mr Michael Broadhead, finance director, said Glostar provided an opportunity to build on Heywood Williams' initial move into plastic extrusion with the purchase of Viny-

lex Window Systems, also based in Gloucester, in March.

But the main focus of the company's acquisition strategy remained the Continent, he said. Continental and US operations accounted for all Heywood Williams' growth in profits to £15.31m (£13.1m) in the half-year to end-June.

The initial consideration for Glostar is £2.81m. An additional consideration is payable

up to the equivalent of 2.5 times pre-tax profits in excess of £500,000 per annum for the period from 1st July 1989 to 31st 1991. Glostar made pre-tax profits of £390,928 on turnover of £3.88m in the eight months to end-June.

Mr Ralph Hincliffe, Heywood's chairman, warned in August that high interest rates in the UK were reducing demand for the group's products.

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UK COMPANY NEWS

As UK sales tumble 190 jobs are shed and stock levels are squeezed to reduce gearing
Savage meets lowered expectations with £7.3m

By Jane Fuller

Savage Group, the USM-quoted DIY and hardware concern, managed to live up to much-reduced expectations by making a profit of £7.2m for the 12 months to June 30. Earnings per share fell from 13.4p to 9.1p.

The pre-tax figure, which is 5 per cent up on last year's £6.96m, is in line with forecasts that were slashed from £11m to £7m after a profits warning in August. The company was hit by the slump in the housing market, by good weather deterring indoor DIY and by rising interest charges.

Turnover rose to £119.96m (£61.95m) in a year which saw an encouraging first full-year

contribution from Groupe Triplex, in France, and six further acquisitions in the UK, West Germany, France, the Netherlands and Belgium.

Although Savage's continental moves have taken the percentage of sales anchored to the UK from more than 70 per cent three years ago to less than 50 per cent now, the profit's slow rise came from a sudden in the UK. "Trading in the final quarter, which is normally our best, was particularly disappointing," said Mr David Stephens, finance director.

"The most directly hit were the DIY multiples and the subsidiaries of ours which sell to

them." People spent more on home improvements after they moved house, he said, and the mortgage rate rises had put the brake on that.

To keep the company profitable on lower sales volumes, the cost-cutting had included shedding 190 of the 1,900-strong workforce, reducing the promotions budget and putting the squeeze on stock levels, but the main effect filtered through after the year end.

The last measure in particular would help to reduce gearing to its level of 90 per cent in June, said Mr Stephens. Interest payments of £2.38m (£283,000) were more than four times covered by profits before

interest and tax.

Mr Stephens said it was not long since the fast growing group had operated profitably at significantly lower levels of turnover, so it would not be a big problem to wind back to those levels.

COMMENT

The tumbling profit forecasts speak volumes for the difficulties faced by Savage. For the current year, a figure of £14.2m was being forecast as late as July; then the August warning sparked a typical adjustment of from £13m to £9m. And the rethink goes on: a profit of £5.7m would give a prospective multiple of 9.3. R all goes to

show that having a good market share is no fun when that market is in the doldrums. UK sales are expected to be about 10 per cent down this year. The company's case is that its £1.3m reduction in overheads, worth an annualised £3.5m, demonstrates that it can manage recession as well as growth. It also expects to improve margins in France, where 35 per cent of its business lies. A less charitable view is that, with the company suffering both directly and indirectly from high interest rates, profits for this year might be only £7.5m. The shares slipped from 59p to 55p yesterday.

US link in automotive fabrics for Parkland

By Alice Rawsthorn

PARKLAND TEXTILE, the Yorkshire wool textile company, is joining forces with Guilford Mills, one of the largest US textile groups, to diversify into the automotive fabrics market.

The two companies plan to manufacture woven fabrics for use in the car industry at Parkland's Park Valley Mills plant in Huddersfield. Parkland and Guilford have formed a joint venture to re-equip and adapt the existing production facilities for the automotive market.

The new business will concentrate on producing fabric for upholstery, door panels and headlinings. It is expected to generate turnover of around £10m within four years.

Parkland, which is one of the larger Yorkshire weavers, sees the joint venture as a way of broadening the base of its business by moving into a new market which will be counter-cyclical to its traditional textile interests. At present the climate in traditional textiles is intensely competitive. The new venture will also fit with its yarn dyeing business, which is already in the automotive market.

Guilford Mills is a leading player in the international market for automotive and apparel warp knitting through its interests in the US and Europe. Guilford's European subsidiary supplies warp knitted automotive fabrics from its plants in the Midlands and East Anglia.

Transformed Cluff achieves nine times profits jump

By Kenneth Gooding, Mining Correspondent

CLUFF RESOURCES, the USM-quoted concern which has been transformed from a loss-making minor oil company into a profitable medium-sized gold mining group, increased taxable profit by more than nine times in the half-year to June 30, from £84,000 to £790,000.

"Profit for the full year should be significantly above that of 1988," said Mr JG "Algy" Cluff, chairman.

He revealed that the group was on course to produce 70,000 troy ounces of gold this year compared with 23,200 ounces for the whole of 1988 and 29,224 in the first half of the current year.

Mr Cluff added that there was a good prospect of Cluff paying the first dividend in its 16-year history - but a final decision would depend on whether the gold bullion price weakened substantially and/or whether there were any serious interruptions to its gold output.

The company would prefer to spend its money on dividends rather than paying for a full London Stock Exchange quotation although, inevitably, at some time in the future it would go for a full flotation, he added.

Mr Cluff said that the company's "responsible objective" was to have established within 18 months that it had the resources to produce 200,000 ounces of gold a year.

During the first half Cluff received £225 an ounce for its gold, equivalent to US\$377. Production costs were \$262 an ounce and Mr Mark Ashley, finance director, said the cost would fall to \$240 when output reached an annual rate of 70,000 ounces.

Most of Cluff's gold is produced in Zimbabwe and must be sold to the reserve bank. However, Zimbabwe has set up a 2815m fund and promised to provide a \$2700 an ounce (about \$200 floor price for gold mined in the country).

Turnover rose from £1.88m to £6.8m in the half-year. The operating profit was £1.02m (£120,000 loss) and the net profit, up from £81,000 to £520,000, represented 1.12p a share (0.13p).

Output in Zimbabwe was reduced by heavier-than-expected rains in January and a short stoppage caused by an abnormal breakdown of two



Algy Cluff: money on dividends rather than full listing

transformers at Bindura in June.

Mr Cluff said the Royal Family mine at Piliabusi, Zimbabwe, exceeded its production target by 12.5 per cent. But he repeated his warning that the mine, which produces 6,000 ounces of gold a year, was likely to close next spring although exploration work was attempting to find new gold reserves.

Engineering studies showed that 681,000 ounces of the 1m ounces in the reserves of the Freda/Rebecca mine in Zimbabwe could be recovered by open-pit mining.

The contribution of the Transacomm mine in Spain, a joint venture with the Antofagasta group, will be only "modest" this year because of various start-up problems and Cluff's share will be only about 5,000 ounces next year.

"We spent a great deal of time for little return so far," Mr Cluff admitted. "But it is good to have a production base in Europe and we hope to expand in Spain."

However, most of Cluff's energies outside Zimbabwe would be concentrated on Ghana where exploration drilling had produced "very encouraging" results.

Cluff has decided against floating separately its wholly-owned oil and gas subsidiary because the oilshoot did not need the cash and the process would divert management attention, said Mr Cluff.

INTERNATIONAL FUND MANAGEMENT

The Financial Times proposes to publish this survey on:

26 OCTOBER 1989

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FINANCIAL TIMES EUROPE'S BUSINESS NEWSPAPER

Sunleigh sports clothes buy

By Clare Pearson

SUNLEIGH is deepening its involvement in sports clothing and accessories through the purchase of Associated Supplies, a supplier of crested leisure wear, for a maximum consideration of £3.2m.

USM-quoted Sunleigh's other interests are in electrical and electronics manufacture. Its product Powa Kaddy, an automated golfer's caddy machine, provided an opening for its move into sportswear.

Mr Tony Merryweather, chairman, said Associated Supplies' products would complement the Aquatique all-weather clothing range launched by the Powa Kaddy subsidiary at this year's Open Golfing Championship in July.

Initial consideration for Associated Supplies is £1.5m to be satisfied by a vendor placing of 1.97m new ordinary shares. The deferred payment to be made in shares, depends on profits up to end-December 1991.

Associated Supplies has warranted profits after 35 per cent tax of not less than £192,000 for the year to end-December. Warranted net assets are not less than £250,000. The ven-

dors, Mr and Mrs R Flower, are joining Sunleigh.

Mr Merryweather said Sunleigh, which announced pre-tax profits of £1.41m (£1.04m) on sales of £11.5m (£9.1m) for the half-year to July 1, was still keen to make further acquisitions. But in the current state of the stock market it ruled out the kind of very big purchase which he said earlier in the year the company was seeking.

Babcock International has said it intends to maintain its stake in Sunleigh at not less than 20 per cent, Mr Merryweather added.

SHARE STAKES

The following changes in company share stakes announced recently include:

Advest Group: J Saville Gordon (Commodities) and JD Saville, its director, together hold 3.45m ordinary (5.36 per cent).

Aitken International: Fiduciary Management Services has increased its holding to 4.54m ordinary (9.24 per cent) with the purchase of 990,000.

Armstrong Equipment: JH Fenner has lifted its holding to 2.91m (5.46 per cent) with the acquisition of 50,000 ordinary at 186p each.

Baldwin: Satyendra Singh has acquired 133,969 ordinary to bring his holding to 1.01m (5.27 per cent).

British Mohair Lingerie Group: has increased its holding to 3.61m ordinary (27.19 per cent) with the acquisition of 45,000.

BSG International: Sir Ron Brierley holds, through IEP Securities, a subsidiary of Industrial Equity (Pacific), 25.45m ordinary (12.57 per cent).

Builder Group: EMAP has acquired a further 200,000 ordinary, bringing its notifiable interest to 1.7m (10.33 per cent).

Casket: York Trust has acquired, on behalf of other parties, 285,000 ordinary to lift its total to 6.86m (18.2 per cent).

Charterhall: Wyncon, a subsidiary of Westmax, has raised its holding to 277.91m ordinary (58.59 per cent) with the purchase of 3.45m.

Clarke Nickolls & Coombs: Channel Hotels & Properties and Lloyds Bank (in its capacity as nominee) have increased their interest to 2.48m (11.98 per cent) from 2.08m (10 per cent).

Colorvision: Edinburgh Fund Managers has bought 515,000

ordinary from three directors for 186p per share. Mr Neville Michaelson has sold 200,000, reducing his holding to 9.78m (48.67 per cent), Mr Bernard Michaelson has sold 294,000, reducing his holding to 1,05m (20.32 per cent) and Mr Nigel Elton has sold 20,700, reducing his holding to 610,740 (3.04 per cent).

Daks Simpson: Mrs SM Diamond has reduced her holding to 77,000 (7 per cent) with the disposal of 1,000 shares at £18.30 per share.

Dalgely: Carlbrook Holdings (UK) has transferred 12.2m (5.5 per cent) shares to Como International. Como is 50 per cent owned by Carlbrook and 50 per cent by subsidiaries of Société Nationale Elf Aquitaine. Carlbrook's ultimate owner is Mr Robert Holmes a Court.

Delaney Group: Mr NE Puri, chairman of Melton Medes and non-executive director of Delaney, has sold 40,000 ordinary at 70p per share. Melton Medes' interest continues to be 29.62 per cent.

EIS Group: M&G Group has increased its holding to 2.09m ordinary (7.1 per cent).

Five Oaks Investments: Govett Strategic Investment Trust has lifted its holding to 11.45m ordinary (24.3 per cent) with the purchase of 204,371 London Securities has bought 3.46m, bringing its holding to 6.41m (15.55 per cent).

Gartmore Valine Investments: John Govett, acting on behalf of clients under its discretionary investment management, has an interest in 6.51m ordinary (13.09 per cent). The shares are held on behalf of its clients as follows: Govett Strategic (West Nominees) Investment Trust 5m (10.06 per cent) and Dalgely Pension (West Nominees) Fund 1.51m (3.03

per cent).

Geest: Mr LW van Geest, a director, has sold 320,000 ordinary at 287p per share.

Hambro Countrywide: Hambros has acquired 14.82m at 39p per share, bringing its holding to 162.55m (51.63 per cent). Guardian Royal Exchange has also acquired 14.82m at the same price, lifting its holding to 70.27m (21.62 per cent).

Hanover Dracer: SA Goldstein has acquired 25,000 shares at 120p, raising the total holding to 433,085 (7.08 per cent).

International Communication and Data: Mr DZ Unger, a director, has disposed of 75,000 ordinary leaving his holding at 812,153 shares (4.89 per cent).

Lee (Arthur) & Sons: GMF (Investments) is now interested in 4.38m ordinary (13.34 per cent).

Medminster: Robert Fleming & Co has bought 766,960 ordinary (9.99 per cent). Also Mr HR Moczko has increased his holding to 775,000 shares (10.09 per cent).

Molyneux Holdings: E Walters, a director, has acquired 6,000 ordinary, at 128p per share, bringing the holding to 407,000 (5.26 per cent).

MS International: MS International Pension Fund has increased its holding of MS International ordinary shares from 7.99 per cent to 8.08 per cent.

Normans Group: PS Allen has acquired 10,000 5 per cent cumulative preference shares, raising the total holding to 32,980 (31.4 per cent).

Personal Assets Trust: Mr JG Gammell, chairman, has bought 5,000 ordinary, lifting his holding to 6.33 per cent.

PML Group: Mr Joseph C Lewis has acquired 141,900 ordinary bringing his total holding to 8,912,600 (20.26 per cent).

PHARMACEUTICALS

The Financial Times proposes to publish this survey on:

7 NOVEMBER 1989

For a full editorial synopsis and advertisement details, please contact:

DENIS CODY
on 01-873 3301

or write to him at:

Number One Southwark Bridge London SE1 9HL

FINANCIAL TIMES EUROPE'S BUSINESS NEWSPAPER

BSN RISES...

1,413 MILLION FRENCH FRANCS PROFIT FOR THE FIRST HALF OF 1989

Consolidated sales of BSN during the first six months of 1989, ended June 30, came to 23.2 billion french francs, against 20.7 billion french francs in the corresponding 1988 period.

In the 1989 period, net income was 1,413 million french francs against 1,257 million french francs a year earlier, a gain of 12.4 %.

The net income includes, first, a capital gain resulting from the divestiture of the operations in subcontracting in the biscuit sector in the U.S. and, second, financial costs associated with the acquisition of the Nabisco biscuit companies, whose results are not consolidated in the first half 1989 figures.

Operating income after depreciation but before net interest expenses and taxes amounted to 2,550 million french francs against 2,299 million french francs during the first six months of 1988.

The breakdown by Division was as follows:

(millions of french francs)	06/30/1989	06/30/1988
Dairy Products	537	418
Grocery Products	444	460
Biscuits	522	421
Beer	496	414
Champagne/Mineral Water	314	286
Containers	339	357
Divisional operating income	2,654	2,356
Less: unallocated income	(104)	(57)
Total gross operating income	2,550	2,299

In the 1989 period, Vandamme Pie Qui Chante was transferred from Grocery Products division to Biscuits Division; six-month figures 1988 were restated. The BSN six-month figures were subjected to specific examinations by the statutory auditors who have supplied their certificate of approval as prescribed by law.

The results achieved during the first half period and the beginning of the second half period, helped by favorable weather conditions, suggests that reasonable growth of net income may be recorded for the full year 1989.



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NY 10022
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FINANCIAL TIMES EUROPE'S BUSINESS NEWSPAPER

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formerly TRAFALGAR FUND S.A. R.C. B 8.202

Registered Office: Luxembourg, 14, rue Aldringen

On January 31, 1989, the extraordinary meeting of shareholders of TRAFALGAR FUND S.A. (the "Fund") resolved to change the form and name of the Fund, as well as its duration into a "société d'investissement à capital variable" (SICAV), established for an unlimited period under the name of SCHRODER INTERNATIONAL SELECTION FUND (the "Company"), of which TRAFALGAR FUND will become one of several classes of shares.

Shareholders of the Fund will receive on or after 15th October, 1989, against presentation of their old certificates, for each old share in the FUND, 1 new share in SCHRODER INTERNATIONAL SELECTION FUND.

Shareholders should present their old certificate(s) to: BANQUE GENERALE DU LUXEMBOURG S.A. L-2951 LUXEMBOURG

In order to have them exchanged against new certificate(s). Registered shareholders of the Fund will be sent a letter informing them of their new shareholding in the Company and how they may obtain the new certificate(s).

The Board of Directors

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FINANCIAL TIMES SURVEY

The exchange of ideas is nothing new, but industrialists, politicians and scientists throughout the world are attaching greater importance to research and development. Technology transfer, reports Clive Cookson, is now the buzz phrase of economic policy

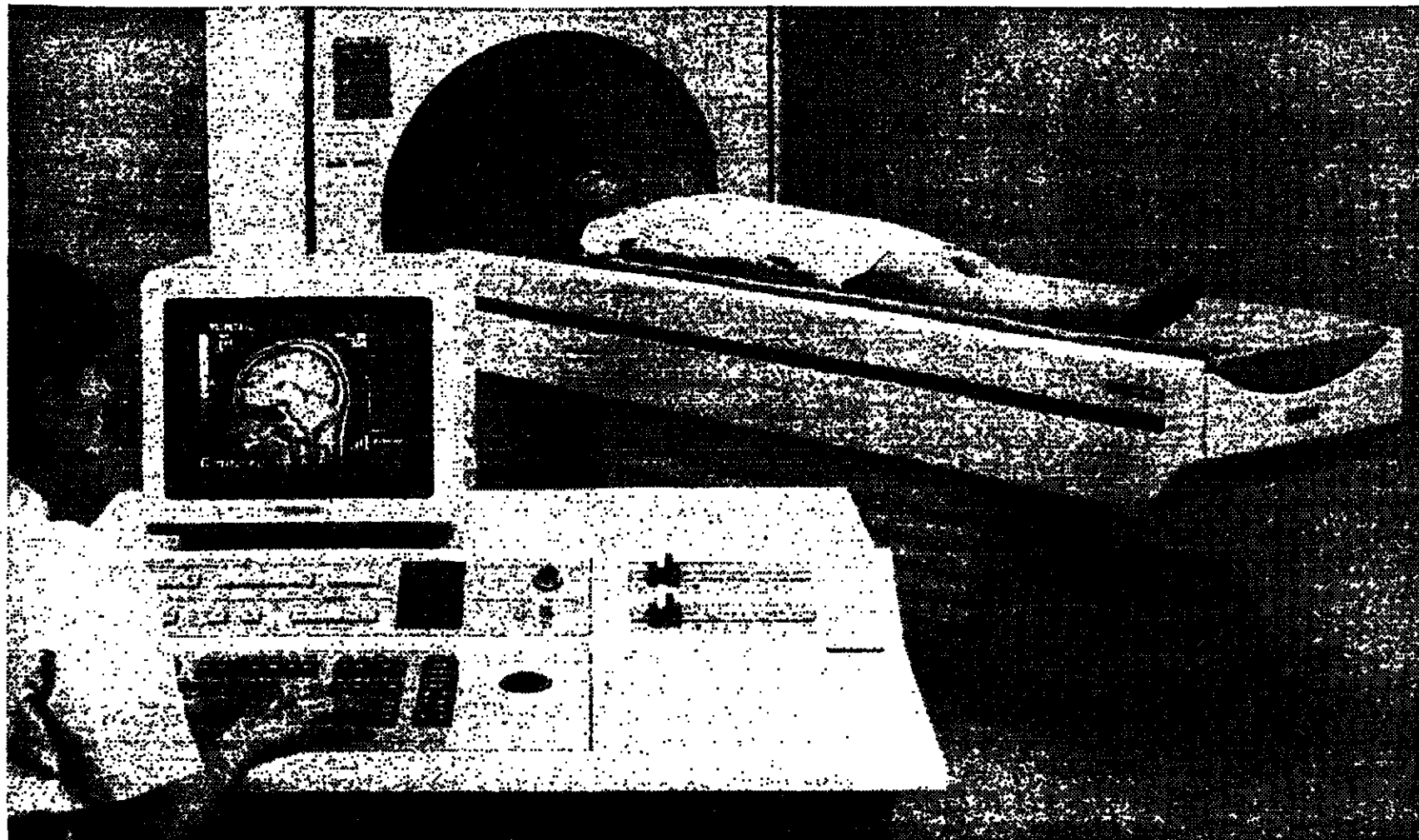
Spreading the word on ideas

PEOPLE HAVE been transferring technology ever since the first stone age tribes exchanged ideas for making flint implements. But only in the 1980s has technology transfer been generally recognised as an important activity for stimulating economic growth.

Technology transfer is now a buzz phrase of industrial policy. Governments worldwide are changing their support for industrial research and development in a way that requires companies to work with other companies or with university partners in collaborative projects designed to facilitate technology transfer.

Besides these collaborative research programmes, governments are encouraging technology transfer directly through programmes to disseminate scientific and technical information and to link companies in touch with sources of innovation. In the UK, the Department of Trade and Industry spent £22m in 1988/89 and expects to spend £24m in 1989/90 on technology transfer activities.

Companies are doing more to seek out technology that might be worth exploiting. They are looking in universities and research institutions and in other companies, large and



Breakthrough in medical diagnosis: Magnetic Resonance Imaging, licensed by British Technology Group to healthcare groups in US, Japan and Europe

Technology Transfer

which was formed out in 1981 through the amalgamation of the National Enterprise Board and the National Research and Development Corporation and claims to be the largest technology transfer organisation in the world, with more than 2,700 licensing agreements to its credit.

Most brokers still concentrate on the limited role of arranging a licensing agreement between the originator of the technology and the company exploiting the work. But there is a growing trend for technology transfer companies to play a much wider role - helping with market research, business planning and fund-raising.

Some technology transfer companies result from initiatives to commercialise research carried out in large government agencies. A striking UK example is Defence Technology Enterprise (DTE), set up four years ago through a joint initiative by the Ministry of

Defence and a consortium of venture capital companies. More than half of all UK government R&D spending is for defence, and some science policy analysts argue that most of this is, in commercial terms, wasted. Indeed it has been claimed that the UK's high spending on defence research compared to other countries has starved civil R&D of funds and is partly responsible for the country's poor industrial performance since the war.

DTE is intended to counter such criticism by identifying developments in MoD research establishments which could have civil applications, and then helping to commercialise them. The record so far is encouraging. DTE already has 50 licensing deals to its credit and several of the resulting products are being marketed internationally. DTE expects sales of its spin-off products to reach "many hundreds of mil-

ions of pounds" over the next decade.

Drawing on its experience with the MoD, DTE is moving on to commercialise technology from other sources, including non-military government laboratories and large companies such as British Aerospace.

Another big new player in the technology transfer market is AEA Technology, the commercial arm of the UK Atomic Energy Authority. Its mission is to apply outside the nuclear industry the very wide range of technological expertise which the AEA has acquired as the body responsible for developing nuclear power in the UK.

With government spending on nuclear R&D expected to fall over the next few years, AEA Technology is an ambitious attempt to fill the gap by bringing in millions of pounds a year from industry. Its activities span aerospace, defence, oil and gas, manufacturing, process industries, environmental services - and even biotechnology.

Yet AEA Technology is not primarily a technology transfer business in the same way as BTG or DTE. Its main mission is not to license companies to commercialise the results of AEA research but to sell the AEA's services in contract R&D, engineering, technical services and consultancy.

Thus AEA Technology has more in common with the UK's thriving independent research and technology sector. The 45 research and technology organisations that belong to the Association of Independent Research and Technology Organisations (AIRTO) have a total turnover of £278m and staff of 9,500.

Ten years ago, such organisations were rather marginal industrial research associations, dependent on government contracts and on income from member companies col-

CONTENTS

The Government approach; Role of the universities 2

British Technology Group; Licensing and patents 3

Japan; USSR; Financing 4

laboratively sponsoring research in a particular industrial field. Today they are far more responsive to the needs of the market, and depend on specific industrial contracts for research, development and consultancy.

These organisations have become more commercially oriented, controlled by boards of directors rather than councils of members. And they have dropped their old-fashioned names in favour of snappy acronyms: there is no quicker way to irritate one of the new breed of managers at, say, Pera or Sira than to refer to the Production Engineering Research Association or the Scientific Instrument Research Association.

The new-style research and technology organisations have far more technology transfer activities than the old research associations. They are increas-

ingly organising joint ventures and collaborative projects, both in the UK and in Europe, making use of the growing array of EC research programmes. They are playing an important role too in transferring technology between different industries.

The higher education sector is also taking a far more active role than 10 years ago in transferring the results of academic research into industry. This is partly because of the growing financial pressure from the Government for universities and polytechnics to find alternative sources of income. In the process, higher education institutions have formed a large variety of new links with industry.

Almost every UK university and polytechnic now has an industrial liaison unit designed to promote technology transfer. However US universities have gone much further in this direction. As a recent report by the National Economic Development Council points out, Massachusetts Institute of Technology employs more industrial liaison officers than the entire number in British universities.

University companies are emerging as an important transfer mechanism and some universities have shareholdings in several companies, ranging from 100 per cent down to small minority stakes. Last week for example, Isis Innovation, Oxford University's wholly owned technology transfer company, launched its first spin-off venture, Oxford Molecular.

Oxford Molecular's business will be to market computer graphics software for molecular modelling to science-based companies developing new pharmaceutical and agricultural chemicals.

Initial sales will come from exclusive licenses on modelling programs developed at Oxford over the past 20 years. Several UK and US venture capitalists are investing in Oxford Molecular, but the university keeps a 30 per cent equity stake in exchange for its intellectual property.

University College, London, is launching its new company UCL at New Technart '89, the showcase for innovation, inventions and technology transfer, which is on at the National Exhibition Centre, Birmingham, until Thursday.

CLASSIFIED TECHNOLOGY

<p>High Quality Monochrome Colour Converter</p> <p>Liquid crystal based system which produces colour VDU (including TV) displays with similar definition and resolution to monochromatic displays.</p> <p>Ref. No. SIL101</p>	<p>Environmentally sealed, low-profile tactile keypad of proven design and specification. Mechanism parts but full key travel with high integrity snap action.</p> <p>Ref. No. SIL103</p>	<p>Faculty of Engineering</p> <p>Works with large and small companies on design and manufacture to key new areas including the SERC automotive design programme and the biological engineering centre, advanced materials/process, modular machinery and power electronics.</p> <p>Ref. No. SIL122</p>	<p>Robots Milk Cows</p> <p>A novel visual/nuclei sensor system can help the location of the test-cup array.</p> <p>Ref. No. SIL128</p>	<p>Clinibase</p> <p>A sophisticated but user-friendly database and word processing system designed specifically for the Doctor's Office. Combines computerised record system with medical letters files enabling rapid production of all types of medical documentation.</p> <p>Ref. No. SIL134</p>	<p>Human technology. Adjust the chair to fit the back. Develop the software to fit the mind. Design the system to fit the man.</p> <p>Ref. No. SIL140</p>	<p>Chromosome Analysis</p> <p>A turn-key vision system for routine clinical screening has been developed. It automates much of the analysis task and increases laboratory throughput by a factor two. The first full-scale clinical installation was commissioned in 1985 and there are currently more than 30 systems in use throughout the world.</p> <p>Ref. No. SIL147</p>
<p>Laser Beam Focusing/Launching System</p> <p>Laser beams greater than 2mm diameter launched directly into a fibre optic system without sophisticated focusing. High transmission efficiency enables long fibre optic leads to be used. Joining losses of 30% can be tolerated.</p> <p>Ref. No. SIL102</p>	<p>A photo-fabrication technique for 3D circuit using laser light to inscribe the circuit lines: obviating the traditional photographic mask and saving production time and labour cost.</p> <p>Ref. No. SIL104</p>	<p>Solid/Liquid Nebuliser</p> <p>A simple system has been developed for the production of very fine droplets/particles of liquids, solids or liquid/solid suspensions without the possibility of the blocking of jets in the nebuliser head.</p> <p>Ref. No. SIL123</p>	<p>An innovation to assist in the removal of heat exchanger tube bundles in difficult maintenance locations. Adaptable to any flange arrangement and fully automated.</p> <p>Ref. No. SIL129</p>	<p>Surgical Cement</p> <p>A cyanoacrylate adhesive has been modified to improve tensile strength. Applications range from the repair of broken tendons to cementing dental rods.</p> <p>Ref. No. SIL135</p>	<p>Health and Safety of Advanced Technology</p> <p>Report advice - on Visual Display Terminals, advanced technology and digital health. Covers, consultancy and evaluation.</p> <p>Ref. No. SIL141</p>	<p>Automated Vision Systems - Low-cost Cervical Smear Prescreening System</p> <p>An automated pre-screening of routinely prepared specimens by an automated vision system provides a low cost primary health care system for use in health centres and general practice.</p> <p>Ref. No. SIL142</p>
<p>A highly successful industry led non-profit-making technology transfer project of over one hundred North-West companies - together with all the region's universities and research centres - has resulted in many new products.</p> <p>Ref. No. SIL105</p>	<p>Practical Help for Inventors</p> <p>A one stop shop offers free advice to inventors in the Westex area on developing prototypes, patenting, raising finance, marketing etc. for innovative products. Regularly no grants are available but specialised help in this difficult field.</p> <p>Ref. No. SIL109</p>	<p>Automated Vision Systems - Brake Inspection</p> <p>Fully integrated visual inspection system developed for the shop-floor. High-speed operation achieved by combining sophisticated model-based software with high performance hardware has been applied to a range of inspection problems.</p> <p>Ref. No. SIL125</p>	<p>Multiple Strain Gauge Monitor</p> <p>A microcomputer based system to provide a highly accurate automated method for the monitoring of resistance changes in a multiplexed system of many strain gauges. Developed for the Jodrell Bank radio-telescope.</p> <p>Ref. No. SIL130</p>	<p>Biologically Imperious Sheath</p> <p>A disposable, elastic transparent sheath of translucent but biologically imperious material, which can be easily placed over any medical appliance before placing in a patient's mouth, e.g. a thermometer or light pen, in such a way that neither the appliance nor the hand holding it is contaminated by the patient.</p> <p>Ref. No. SIL136</p>	<p>Automated Vision Systems - Low-cost Cervical Smear Prescreening System</p> <p>An automated pre-screening of routinely prepared specimens by an automated vision system provides a low cost primary health care system for use in health centres and general practice.</p> <p>Ref. No. SIL142</p>	<p>Cervical Matrix System</p> <p>This system comprises a portable disposable cervical smear for direct transmission to a different type and size of matrix and a range of reusable retaining clamps.</p> <p>Ref. No. SIL143</p>
<p>'Smart' Burglar Alarm</p> <p>A programmed intruder alarm which is activated by sequential events to the entry of a burglar, offers a significant reduction in "false" soundings of intruder alarms.</p> <p>Ref. No. SIL107</p>	<p>Fire Detection System</p> <p>Early warning fire detection system, provides pre-ignition warning using wireless and advanced computer software. Very useful in high security applications. Patented.</p> <p>Ref. No. SIL110</p>	<p>C.V.D. Multilayer hard material coatings on F.L.S.S. cutting/forming tools - a route to significantly enhanced tool performance.</p> <p>Ref. No. SIL126</p>	<p>Barrier Materials</p> <p>High performance barriers based on paper and non-woven fabrics can be converted using barrier conversion technology. Enhancement of barrier properties achieved with little effect on air permeance.</p> <p>Ref. No. SIL132</p>	<p>Improved Spermicidal Contraceptives</p> <p>A two component vaginal/bacteriocidal spermicidal composition using conjugated lysozyme has produced a major synergistic improvement in contraceptive activity which may result in the possibility of significant reductions in the amount of active components used without reduction in contraceptive efficiency. Can inhibit transmission of STD's including HIV.</p> <p>Ref. No. SIL138</p>	<p>Long Life Blood</p> <p>The product has been developed for the treatment of human blood to extend the storage lifetime of blood without damage to the red blood cells.</p> <p>Ref. No. SIL144</p>	<p>Blood Measurement - 1</p> <p>This laser-Doppler based device for the measurement of the flow of blood in the skin and sub-cutaneous tissue measures the blood flow by comparison of the scattering effect measured with a reference beam. Useful in many clinical conditions, e.g. Raynaud's disease.</p> <p>Ref. No. SIL151</p>
<p>Marine Technology</p> <p>geophysical energy systems - analytical and diagnostic services - plus other marine plus specialist training</p> <p>Ref. No. SIL108</p>	<p>Tube bundle extractor technology - North Africa.</p> <p>Ref. No. SIL127</p>	<p>Automated Vision Systems - Crack Detection</p> <p>An automated vision system capable of inspecting forgings at a rate of one every 2.5 seconds with excellent false positive, negative response.</p> <p>Ref. No. SIL133</p>	<p>Opioid Compounds</p> <p>New highly potent analgesics (comparable to morphine/heroin) without the toxic side effects of morphine analogues.</p> <p>Ref. No. SIL139</p>	<p>Remotsense Temperature Sensing and Switching</p> <p>Use of thermochromic liquid crystals in tip of long fibre optic link facilitates remote temperature sensing.</p> <p>Ref. No. SIL146</p>	<p>Dental Endosteal Filling Material</p> <p>A new endosteal, bioactive material for bone filling offers both to dentists and to dental technicians a material which provides a superior material to glass particles traditionally used.</p> <p>Ref. No. SIL152</p>	
<p>Rapid electrodeposition processes can now be further enhanced by novel methods of agitation and current pulsing techniques.</p> <p>Ref. No. SIL111</p>	<p>Single crystal, polycrystalline and amorphous materials production; structural, electrical, magnetic, thermal and optical characterisation from 20mK to 1,300K and in magnetic fields up to 1T.</p> <p>Ref. No. SIL114</p>	<p>Fusion reactor materials large scale accommodation accompanying cyclic stressing of 316L stainless steels for NET are now being quantified.</p> <p>Ref. No. SIL116</p>	<p>Nanoscale Scale Investigation of Interfaces in composites using high resolution electron microscopy is being used to explain variability in composition and structure.</p> <p>Ref. No. SIL119</p>	<p>Liquid Crystal Thermochromic Temperature Indicator</p> <p>Thermochromic liquid crystals have been developed which permit indication of predetermined temperature to within ±1°C. Techniques have also been developed for the application thereof.</p> <p>Ref. No. SIL153</p>	<p>Liquid Crystal Imaging Systems</p> <p>Ferrochromic liquid crystal systems leading to very fast 3D-imaging systems can be used for many applications including security systems, vision systems for remote control vehicles (e.g. bomb disposal robots) etc.</p> <p>Ref. No. SIL154</p>	<p>Pressure Sensors</p> <p>Liquid crystal materials which undergo optical changes when subjected to pressure changes can be used to facilitate remote sensing of pressure. Use of fibre optic link enables sensing to take place in hazardous environment.</p> <p>Ref. No. SIL155</p>
<p>Adhesion of surface coatings to plastic substrates depends substantially upon the correct preparation of the surface. New developments can greatly enhance interfacial performance.</p> <p>Ref. No. SIL113</p>	<p>Grain boundary segregation models have been developed to predict how to position intermetallics of specific composition for engineering and electronic materials.</p> <p>Ref. No. SIL115</p>	<p>Materials optimisation for nuclear reactor core heat exchangers reduce traditional embrittlement for core components of austenitic steels.</p> <p>Ref. No. SIL117</p>	<p>Materials Mechanics Group has set up facilities for investigating the high strain rate properties of metals, polymers and composites using blast wave and projectile impact methods.</p> <p>Ref. No. SIL120</p>	<p>Remote Temperature Sensing and Switching</p> <p>Use of thermochromic liquid crystals in tip of long fibre optic link facilitates remote temperature sensing.</p> <p>Ref. No. SIL121</p>	<p>Pressure Sensors</p> <p>Liquid crystal materials which undergo optical changes when subjected to pressure changes can be used to facilitate remote sensing of pressure. Use of fibre optic link enables sensing to take place in hazardous environment.</p> <p>Ref. No. SIL155</p>	<p>Remote Temperature Sensing and Switching</p> <p>Use of thermochromic liquid crystals in tip of long fibre optic link facilitates remote temperature sensing.</p> <p>Ref. No. SIL121</p>

MATCHING KNOW-HOW TO KNOW-WHO!

We have been advertising our technology marketing services in the FT since June. We have now received about 50 responses - some very interesting UK blue chip enquiries, but about 30 overseas enquiries. It would appear that the Technology Page and the FT's "Technology Market" have a very wide international readership, including Kenya, Indonesia, India, Japan, Brazil, the United States, and some of the EEC countries.

Advertising, as we all know, is an expensive business, but dipping our particular toes into advertising in the FT has proved to us to be very cost effective.

This "Classified Technology" idea is simply to help those with low-to-zero promotional budgets in small companies, R&D Departments, Universities, Polytechnics, the inventing public, to get their message across, and promote their ideas - inventions - patents - licences - in the international market place for £100/£200 plus VAT per insert.

Whether this one half page advertisement in the FT will develop into a regular "Classified Technology" advertising format, I have no idea. I thought it was worth trying as a pilot exercise just to see what the response to both advertiser and the concept would be.

Today's advertisement comprises technology offerings, but if "Classified Technology" develops, it will obviously appeal to technology seekers as well because of the FT's considerable overseas readership.

The SIL box number response system is to protect confidentiality and to keep the space cost down. We will just fax responses to the originators of each advertisement, and copy you.

If you think this "Classified Technology" idea merits further discussion or support, please contact: Paul Cautley

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TECHNOLOGY TRANSFER 2

Clive Cookson on Whitehall's change in attitude

Collaboration is the name of the game

THE ATTITUDE of governments to technology transfer has changed radically over the last decade or so.

Governments have not only set up a host of programmes specifically to encourage technology transfer but also, and more significantly, they have overhauled the structure of support for industrial research and development in a way that forces companies and institutions to work together on R&D projects. Technology transfer inevitably takes place between the partners collaborating on a project.

The UK Government is a good example of this new approach. The Department of Trade and Industry used to have a substantial budget for promoting R&D projects within single companies. But these programmes have been phased out during the 1980s. It is now virtually impossible for any company to obtain DTI funds for industrial research without collaborating with a university and/or another company.

The Alvey programme for collaborative research on advanced information technology, launched in 1983 and wound up last year, led the way. The largest UK programme for university/industry research is Link, which covers a very wide range of R&D projects.

The DTI also runs several programmes that are intended

The largest UK programme for university/industry research is Link

to support technology transfer more directly. These include:

- Four specific programmes designed to spread information about advanced information technology, open systems, advanced electronics and materials. These are intended to increase the awareness of the latest technological developments in these fields, through a mixture of brochures and videos; workshops, seminars and conferences; case studies; advice from centres of expertise; and demonstration projects where users can practical examples in action.

- A network of 14 regional technology centres, involving universities, polytechnics and colleges working with local companies to collect information about new technologies, disseminate knowledge to potential users in business and education; provide advice and consultancy services; and provide training and re-training for companies introducing technology.

The longest established RTC is the north west technology centre, known as Nintech. Established three years ago in

Skelmersdale, Lancashire, it is a thriving network with more than 100 members, ranging from multinationals and universities to small companies with only a handful of employees. The heart of Nintech is a computerised directory of the technology available from or sought by member organisations, and there is a group of technology transfer managers to help forge technological links between them.

- The Teaching Company scheme, managed by the Science and Engineering Research Council. This aims to transfer technology between universities and companies and train postgraduate students for careers in industry. Each student spends two years working on a specific project in a company. About 300 companies are involved and the aim is to expand it to 500 by bringing in smaller companies.

- Research clubs. DTI supports more than 100 research consortia which bring together companies with common interests in particular technical areas. Some conduct collaborative research programmes while many spread information and promote technology transfer. The four DTI research establishments (Laboratory of the Government Chemist, National Engineering Laboratory, National Physical Laboratory and Warren Springs Laboratory) play a leading role in



National Physical Laboratory, one of four DTI research centres

organising these clubs.

- Transferring technology from overseas. A recent report from the National Economic Development Office on technology transfer mechanisms points out the "disturbing" fact that the UK has a "positive balance of trade" in international know-how exchanges. It gains more money from licensing British technology overseas than it spends importing technology, this is in marked contrast to Japan which has a large negative balance.

Although the UK maintains scientific counsellors at several embassies overseas and gathers technical information from

commercial/economic posts elsewhere, the NEDO report says: "In comparison to the vigorous efforts of the Japanese, the British commitment to technology importation is hardly impressive."

The DTI tries to disseminate the information that reaches Whitehall from British embassies as widely as possible. The main vehicle is the Overseas Technical Information Service (OTIS), operated for DTI by PERA, the independent research organisation based at Milton Mowbray, Leicestershire. OTIS subscribers receive regular summaries of incoming data relevant to their fields of interest. They have access to the OTIS database by computer.

The Government's industrial policies have to mesh in with those of the European Community. By their nature, all EC programmes which support R&D involve participants from several member countries and international technology transfer inevitably takes place.

In addition, like the UK and other national governments, the EC runs programmes specifically intended to promote technology transfer. The most important is the Strategic Programme for Innovation and Technology Transfer, known as Sprint. This has just completed a five-year pilot programme and is beginning its main phase with 90m ECU (about £50m) funding over the next five years.

Sprint's main objective is to "build Community-wide infrastructure for supporting innovation in European companies." It has set up about 50 transnational technology transfer networks involving 150 agencies, small and large, public and private. In the next phase it aims to fund a number of larger projects to demonstrate technology transfer in specific fields.

Sprint has helped to establish a European association of technology transfer specialists, TII (standing for Technology, Innovation, Information), based in Luxembourg. TII is organising a large international conference on technology transfer in Nice on October 26/27.

Technology Transfer Mechanisms in the UK & Leading Competitor Nations, NEDO, Millbank Tower, London SW1P 4QX, 250

There is much commercial activity in academia

Little time for play in the science parks

EXPECT A quickening in the pace of technology transfer activities in Britain's universities and polytechnics over the next few years, as higher education sets out to raise more finance from the private sector.

The changed climate in higher education in the 1980s has prodded most universities and polytechnics to become more professional in their relations with business over the past few years.

Government Ministers never tire of exhorting the country's higher education institutions to forge closer links with industry. Research programmes such as the Alvey work in information technology were constructed with the express purpose of encouraging closer collaboration between academia and business.

In 1982, there were just two science parks: at Cambridge and Edinburgh

The Government has underpinned these exhortations by squeezing its flow of cash to the colleges and equally by making it clear that the country's academics will have to look to the private sector to fund the bulk of any expansion in their sector.

The result has been an upsurge in commercially oriented activity in academia. Universities and polytechnics have developed their industrial links in somewhat different ways, drawing on their own strengths and traditions, but a number of broad trends can be discerned.

Perhaps the most visible is the science park movement. In 1983, there were just two science parks: at Cambridge and Edinburgh's Heriot-Watt university. Cambridge still boasts the best known and easily the largest of Britain's science parks, but in the mid-1980s many other universities followed its lead. By last year, the 38 parks which were up and running had generated 10,540 jobs and had drawn in £171m in investment.

The science parks have acted as a focus for genuine high tech companies, with electronics and chemical/pharmaceutical concerns providing the majority of the 307 companies housed on their usually elegantly landscaped sites.

Yet the new wave of science parks may not meet all the hopes of their academic sponsors, once the winners sort themselves out from the also-rans. As Mr David Rowe of Warwick University's science park puts it: "Universities who look upon the prospect of a science park as merely a captive local group of companies from whom they can gain lucrative research and development contracts are in for a disappointment."

A lot of hard work has been put into building up Warwick's park. Mr Kumar Bhattacharyya, the university's entrepreneurial professor of manufacturing systems engineering, realised that many high tech

	GROWTH IN UK SCIENCE PARKS			
	1985	1986	1987	1988
Operating	21	26	33	38
Under Construction	6	7	3	1
Planned	12	9	10	16

Source: UK Science Park Association

companies were not represented in the university's immediate geographical locality. So he went out and sold the park, managing to persuade several big names, such as Prime Computer of the US, to take space in the park.

Many universities have overhauled their administrative structures to give sharper focus to their technology transfer efforts.

One of the most striking examples is the announcement this month that Imperial College, London is to appoint a managing director, the first such appointment by a leading UK university institution. One of the main tasks in this new position for Mr Angus Fraser, a former director of Chloride, the batteries group, will be to build up Imperial's income from the private sector.

Similarly, University College, London, is sharpening its

contracts with business. Some of these are of a size that are significant by any standards. Two years ago, for instance, E R Squibb, the large US pharmaceutical group, awarded Oxford University a seven-year £20m grant, consisting of £6.4m for a new pharmacology department, £3.2m towards the department's running costs and £10.4m for research projects.

The unusual feature of the Squibb-Oxford collaboration is that the university's pharmacology department has agreed to submit, at its discretion, projects to Squibb in five areas: degenerative diseases of the central nervous system, epilepsy, psychosis, control of blood pressure and the peripheral autonomic nervous system. Squibb has exclusive rights to the results of those research projects which it chooses to fund from those

By last year, the 38 parks which were up and running had generated 10,540 jobs and had drawn in £171m of investment

submitted by Oxford. Oxford's wide-ranging agreement with Squibb is not the general pattern. Most technology transfer from the universities takes the form of one-off commissions pursued by individual groups of researchers in closely defined areas.

The industrial liaison office at Manchester University's Institute of Science and Technology, one of the best generators, in terms of percentage share of income from industry to a university, can real off a dozen industrial projects on which its academics are engaged.

One example is Umist's Corrosion and Protection Centre Industrial Services (CAPIS). It was launched as a one-person unit in 1973 and now employs 50 full-time workers. It boasts a long list of blue chip clients for its anti-corrosion services in industries ranging from North Sea oil to electronic chip manufacturers.

The day may soon be dawning when the old truism that Britain is good at inventing, but not at exploiting its discoveries, can be laid to rest.

David Thomas



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TECHNOLOGY TRANSFER 3

LICENSING AND PATENTS

The protection of innovation

WITH A novel idea, the simplest and cheapest course of action is to do nothing about legal protection - either keep the idea secret for as long as possible or regard the idea as public property. Either way, no third party will pay royalties on an unprotected invention, so the inventor cannot hope for any financial reward. Worse still, someone else may apply for legal protection and obstruct the true inventor's progress.

Patenting is only one of several ways to protect innovation, but the other forms of protection, such as registered trade marks, design or copyright, will often not be available or be of limited value.

A patent covers any idea which can be applied to industry, for instance a process for making something, a product made or a way of using it. The idea must be new and not an obvious extension of what is already known. A patent lasts for up to 20 years in the UK and Europe, but heavy annual renewal fees must be paid to keep it in force.

In the US, patents last for 17 years with renewal fees payable every four years on patents filed after 1980. There are two vital differences between the Europe and US.

First, in the UK and Europe, a patent is invalid if the inventor has published the novel information before filing, whereas in the US there are provisions which sometimes allow inventors to talk first and file later. The safest course of action is for inventors to say nothing, other than in confidence, until after a patent application has been filed.

Second, in the UK and Europe, patent applications are published while pending. This allows the chance to see what monopoly an inventor is claiming and object to the Patent Office if there are grounds to contest validity. In the US the situation is quite different; applications remain secret until granted.

Without valid patent protection, there can be no hope of financial reward from technology transfer. Even a know-how licence is usually tied to a patent licence. DIY patenting is usually no more successful than DIY appendectomy. In theory the Patent Office will deal with an inventor, offering helpful advice.

In practice this is dangerous for the inventor, because no amount of helpful advice from the Patent Office can repair the damage done by filing an inadequate application. If technical details are missing from the initial application, they cannot later be added. The only safe way to file a patent is with the help of a qualified patent agent. But choosing a patent agent can be difficult because the profession strictly limits advertising, and potentially disastrous changes in the law will soon allow anyone to practise as a patent

A patent covers any idea which can be applied to industry

agent, irrespective of experience. "It's illogical, and it puts the public at risk," says Ms Jacqueline Needle, of the Chartered Institute of Patent Agents in London.

The Institute publishes a list of qualified agents which is kept in some public libraries. Word of mouth recommendation can be valuable.

Universities and research institutions may find it easier to entrust inventions to the British Technology Group. BTG offers a one-stop service and - following loss of monopoly privileges and the threat of privatisation - it has recently worked hard to shake off its aloof image.

Qualified patent agents' fees are high because they need a curious mix of technical and legal skills. Winning a British patent can cost more than £1,000. Other countries have similar or higher fees with annual renewals on top. Contrary to popular belief, and bluff talk by entrepreneurs, there is no such thing as a world patent.

Applications are handled by government Patent Offices and apply only to the country of grant. Two schemes, the European Patent Convention and the Patent Co-operation Treaty, which is administered by the World Intellectual Property Organisation in Geneva, make things easier and cheaper for inventors who want to file in several coun-

tries. Both schemes came into force in 1978.

The PCT gives an inventor the chance to file a single patent application in one country and pay for them all to be searched. After 18 months the PCT publishes the pending application and search report in patent libraries around the world.

The PCT scheme does not grant patents. This is done by national Patent Offices, or the European Patent Office, which honours the PCT search result. National offices grant patents for their own country, the European Patent Office grants a bundle of patents for up to 13 European states.

Spain recently signed the PCT and from November becomes the 42nd country to participate. Greece is the only country in Europe that is not party to the PCT although it is party to the European Patent scheme. Greece is expected to join the PCT to bring the dream of a true "world patent" closer to reality.

Trademark registration protects a name for any goods (and now service). There is no limit on the potential life of a trademark registration, provided renewal fees are paid. The first trademark, Bass for Beer, was filed over 100 years ago and is still going strong.

Trademarks can be very valuable. Under the consumer protection laws if a customer asks for goods by name, and is given something similar but not identical, the salesman is at fault. Hence the value of trademarks such as Coca-Cola and Pepsi-Cola.

Trademarks can die, however, through misuse. If the public took to calling every cola drink coke, irrespective of origin, the word could become generic and lose its status as a mark. This is what happened to the word aspirin, once a trademark.

The appearance of a product can be protected by paying for a registered design, or by free copyright. The law on both changed on August 1 when the Copyright, Designs and Patents Act 1988 replaced the Copyright Act 1956.

The new Act seeks to tie

down, once and for all, the extraordinarily muddled situation which arose under the 1956 Act when manufacturers claimed free artistic copyright in mechanical products, such as spare parts for cars and electrical equipment.

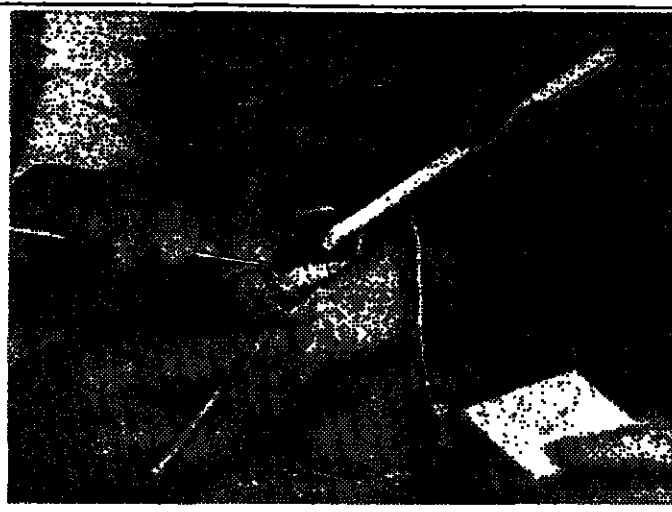
The new law gives no copyright monopoly to manufacturers if a spare part must be shaped in a special way to fit or match the original. But where a product looks original, and there is no must-fit constraint, the manufacturer automatically, and without cost, gets copyright protection through the new unregistered design right provision.

The new right lasts for 10 years, but licences of right are available for five years. This means that anyone who wants to copy the design can demand a licence, with royalty payments if necessary, arbitrated by the Patent Office.

The old provision for registering an industrial design, by paying a fee, remains in the act. But the life span of a registered design has increased from 15 to 25 years and the law has been tightened.

Where there is no design freedom, because the design of a part is determined by the design of the whole, there can be no registration, even if the design looks novel to the eye. The idea is to make registered design protection available only for truly aesthetic, decorative industrial designs.

Barry Fox



Glass ionomer cement: invented at the Laboratory of the Government and developed with financial support from BTG

A small UK agency is suing the Pentagon, reports David Fishlock

The high price of a good secret

BRITAIN HAS developed some sophisticated mechanisms for technology transfer which are beginning to attract wider attention. The well-established British Technology Group and the newer Defence Technology Enterprises are unique activities that offer lessons for other nations as well as for other technology brokers.

Penicillin was discovered in a London hospital and a nearby pub called the Sir Alexander Fleming commemorates the event. Then came the Second World War and an urgent need for the world's first antibiotic. But Britain lacked both the resources and the engineering skills to prepare for large-scale fermentation. It went to the US for help - and found it.

After the war, however, word got around in Britain that someone had "given away" its discovery. The Government vowed it should not happen again and in 1948 formed a state-owned organisation called the National Research Development Corporation, to protect the intellectual property rights of scientists and inventors funded by the public sector in universities, hospitals, national laboratories, etc.

The job of the NRDC was to manage the development of research discoveries and inventions. From the start it built a strong legal side. This paid off handsomely when Oxford University discovered a second generation of antibiot-

ics called the cephalosporins. They were patented worldwide and the royalties secured the financial base of the NRDC for many years.

This organisation has been used - and abused - in different ways by different governments. Now it is called the British Technology Group. It claims to be the world's biggest organisation specialising in technology transfer.

The BTG is currently suing the Pentagon for tens of millions of dollars for allegedly infringing its patents on Hovercraft.

In the 1950s a private inventor brought the idea of an air-cushion suspension for the agency to manage. It set up a subsidiary called Hovercraft Development which patented the skirt retaining the air-cushion. BTG alleges that the Pentagon has bought \$500m-worth of hovercraft using its patented skirt.

The very idea of a minuscule foreign company, employing only 150 people, suing the Pentagon may seem amusing. But BTG has already taken on the world's biggest electrical groups and won.

At issue was nuclear magnetic resonance (NMR) imaging, alternatively known as magnetic resonance imaging (MRI), invented in British universities. BTG has compiled an impressive portfolio of patents it believes covers most such imaging systems sold throughout the world.

Until two years ago very few manufacturers outside the UK heeded BTG's claims. Then Johnson and Johnson, the US healthcare group, capitulated to threats of legal action. Soon after, US General Electric, the market leader, settled and paid BTG several million dollars. This windfall was shared by BTG with dons at Nottingham, Aberdeen and Oxford universities.

Gradually BTG's commercial people have persuaded other NMR makers, such as Toshiba and Siemens, to follow suit. The royalties, and the payouts to some impoverished dons, are doing wonders for its image as a technology broker.

It has also opened an opportunity that BTG is exploiting. Johnson and Johnson - a company with which BTG has enjoyed good relations until the imaging issue erupted -

was evidently impressed by the tenacity with which BTG pursued what it believed were its commercial rights.

The healthcare group had already abandoned plans to make imaging systems. It invited the UK company to take over a portfolio of nearly 100 inventions relating to medical diagnostic imaging and manage development, sharing any royalties between them.

This windfall of intellectual property has doubled BTG's normal intake of new inventions this year. BTG believes it

Fortress Europe. BTG is already inside the citadel - just like the ferrets I come to next.

Another technology transfer mechanism Britain is perfecting is embodied in the activities of a small venture called Defence Technology Enterprises; a private venture, owned jointly by several financial institutions. DTE was invented in 1983 as a way of transferring technology from Britain's defence research establishments into the commercial sector. It is a mechanism for penetrating their tight security fences and taking a cool look at the commercial opportunities within.

DTE has been infiltrating what it calls its "ferrets" inside the fences of all but the Atomic Weapons Establishment. These ferrets are technical folk - some have even worked in defence research establishments. As ferrets they have offices inside the security fences and are free to roam, to see, to talk about the commercial opportunities.

They have been ferreting for about three years. The important point is that they have been ferreting with top-level encouragement in the Ministry of Defence.

Initially, DTE saw itself as a technology broker with unique rights of access. After three years it has realised that to succeed commercially it must be much more than a broker. It must be willing to back the ideas that its ferrets find with more cash for development, to turn them into demonstrations credible to a potential commercial market.

That means a lot more money must be found, more risks taken, than were envisaged at the start, says Mr Bernard Herdan, managing director. The company has begun to look more widely for financial backing, abroad as well as in Britain.

Nevertheless, DTE has made an impressive start. By this summer it had compiled a portfolio of 500 promising military inventions and was marketing 60 of them in the civil sector. It has begun to second its own scientists - as well as the ferrets - to work inside the defence establishments alongside their staff, on the specific questions arising in the "civilising" of military technology.

BTG has worked almost exclusively on behalf of British inventions

can repackage the portfolio in various ways to open markets for imaging in such activities as non-destructive testing for engineering, and quality control in the food industry, as well as for medicine. The deal has given a fillip to BTG's plans for internationalising its operations.

Historically BTG has worked almost exclusively on behalf of British inventions. Now it is getting the idea that many overseas companies may have portfolios of under-developed inventions crying out for its skills in technology transfer and the securing of intellectual property rights.

BTG is convinced intellectual property rights is a greatly under-valued resource, says Mr Ian Harvey, chief executive. Companies are constantly shelving ideas and inventions, not because they won't work but for lack of cash or the right people, for changes in corporate strategy, for a myriad of commercial reasons.

That is why BTG will continue to pursue the Pentagon. It has ample funds and the commercial freedom. It wants to be seen to be willing to fight long and hard on behalf of its inventors, whether they work in an academic cloister or for a corporation.

Between these two extremes, BTG has identified a host of highly innovative start-ups in advanced technologies, especially in the US, which have not begun to think of penetrat-

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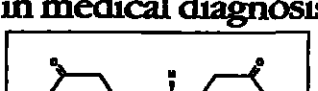
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TECHNOLOGY TRANSFER 4

Michiyo Nakamoto on Japan's creaking barriers

Turning a one-way flow

JAPAN HAS A long history of learning from others and for most of its recent past technology transfer was a one-way flow from the West. Over the last 100 years Japan has been driven by a desire to catch up with the industrialised world and has been preoccupied with soaking up the scientific and technical advances made in Europe and the US.

It is only in the past few years, as Japan's closed society was increasingly seen as a likely cause of the country's persistent and much-criticised trade surplus, that the Japanese woke up to the importance of sharing their recent technological success.

The Government is encouraging easier access to Japanese R&D from abroad. The spreading globalisation of industries is encouraging businesses to join hands increasingly across national borders. The indications are that the doors to Japanese technology are slowly being opened. This trickle, however, is likely to resemble a flow in the near future.

The Japanese Government is eager to present an image of openness. Claims by the US that the closed nature of Japanese society is in part responsible for its trade surplus makes the country's history of deficits in technology transfers something of an embarrassment.

Pressure on Japan to play an international role in keeping with its status as a leading economy has made it more necessary to promote greater access to Japanese R&D.

Tokyo is particularly sensitive to criticism from the US that it is selfishly keeping its technological achievement to itself. The US accounts for over 60 per cent of technology transfers to Japan. In 1987, the Japanese ran a ¥106.5bn deficit with the US and a ¥63.1bn deficit with western Europe.

Such criticism led Mr Noboru Takeshita, the former Japanese Prime Minister, to agree last year with Mr Ronald Reagan, US President in office at the time, to facilitate access to Japanese science and technology research. Last spring, the Ministry of Foreign Affairs set up a scientific technology task force. A report published by the task force in June emphasised the increasingly important role that co-operation in scientific technology played in foreign relations.

Recent statistics, however, suggest that such efforts still have a long way to go. The number of new cases of technology transfers actually fell from 1,730 in 1986 to 1,655 in 1987, according to a report published in March by the Agency of Industrial Science and Technology. Figures released by the Bank of Japan indicated that Japan paid ¥64bn for licences, patents and royalties in 1987. This was more than three times as much as it received.

Part of the difficulty is that most of the technological advances that foreigners are interested in is done in the private sector and the Government cannot force a private company to supply information on its R&D activities.

Japanese experience in trying to catch up and finally overcome the West has perhaps made the Japanese more reluctant to share in the fruits of their labour and suspicious of possible competition. Industry leaders are not as self-confident as their US counterparts were in the earlier part of the century although Japan enjoys its status as the world's largest creditor nation.

Mr Isao Idota, president of Technology Transfer Institute (TTI), a private organisation which helps companies arrange technology exchanges, regrets that Japanese compa-

nies are still far from forthcoming in their attitude towards foreigners.

Meanwhile, the traditional practice of lifetime employment reduces the chances of technology being transmitted through skilled personnel. While the Japanese have recruited hundreds of technicians to teach them western skills, the only people Japanese companies will willingly send on technical transfer missions are men near retirement.

While such attitudes and the widespread image of Japan as an inaccessible society may discourage foreigners from seeking Japanese advances in technology, a lack of interest, at least on the part of the West, also helps perpetuate the lopsided situation.

Language is also cited, particularly by westerners, as an insurmountable barrier to seeking Japanese advances in technology, a lack of interest, at least on the part of the West, also helps perpetuate the lopsided situation.

Language is also cited, particularly by westerners, as a large difficulty in transferring technology from Japan.

The problems in technology transfers to developing countries are of a different nature. "It's a pitcher and catcher relationship," said Mr Idota. "If you throw the ball and the other side isn't ready, it's a disaster."

In spite of all the barriers, the unchallenged lead that Japan enjoys in certain industries makes it inevitable that more and more technology will flow out of the country. At the same time, the increasing globalisation of industries and fear of protectionist measures are encouraging more Japanese companies to form licensing agreements with companies abroad.

"Europe's single market in 1992 has been the biggest trigger for technology transfers from Japan," says Mr Idota. "More Japanese companies are ready to license technology since nobody wants to be left out."

WHEN Mikhail Gorbachev seized power in the Soviet Union four years ago, one of his prime co-conspirators was technology. Or, to be more exact, the lack of it.

It was the realisation of the rapidly expanding technological gap between the Soviet Union and the industrialised West, in spite of massive spending both on military hardware and on space, which persuaded important pillars of the establishment to opt for the radical reformer.

"Today, although the Soviet Union has one of the world's largest scientific workforces, it has only a modest record of achievements," said Mr Roald Sagdeyev, director of the Soviet Space Research Institute. "For too long, Soviet science has hidden its inadequacies behind official panegyrics to its success. Science has its own criteria for success, and Soviet achievements have not measured up to them."

Traditionally, the view has been that Soviet science has been strong on fundamental research, but weak on its application. Mr Sagdeyev, an outspoken member of the new Congress of People's Deputies, calls even that into question.

"We have long been used to castigating ourselves for being unable to translate effectively the results of fundamental research into practice," he wrote last year in *Izvestia*, the official government newspaper. "It is high time we sorted out honestly and objectively the causes of the crisis experienced by fundamental science."

More than anything else, he blames the creation of a massive scientific bureaucracy - perhaps 1.5m strong - raising artificial barriers to interdisciplinary communication, preventing labour mobility, and stifling original research.

That thesis is almost universally accepted. However, the system will take a long time to unscramble, in spite of progress in pensioning off ageing administrators and academics into honourable retirement. In the meantime, the Soviet

Quentin Peel looks at Moscow's modest record

Scientific reforms urged

Soviet economy where it hurts. The USSR must raise the quality and reliability of its production - through automation, robotics, computer-assisted design and manufacture.

But that is precisely the area where they come up against Cocom's production technology can be used to produce defence goods as well as civilian ones," said a Western scientist.

Cocom restrictions have some effect, but less drastic, in the other area seen as most in need of transferred technology: bio-technology, where the advances in Western science have not been reflected in the USSR. The area is crucial for the Soviet Union because of the serious state of both agriculture, and the health service.

"In the whole of our country there are probably no more than 50 geneticists doing truly up to date research," according to Mr Alexei Sozinov, director of the Moscow Institute of General Genetics. "Practically all the genes we use are imported. We even have to bring in laboratory mice from abroad."

What Mr Gorbachev's policy

of glasnost has meant is a dramatic improvement in communication between Soviet scientists and their Western counterparts. Joint scientific journals will help expose Soviet work to the outside world. Similarly, Western journals are becoming more freely available in the USSR.

Mr Yuri Osipyan, director of the Institute of Solid State Physics, said restrictions have been lifted on publication of research formerly classified as defence-related. The only defence-related aspects which are regarded as industrial secrets.

Dr Gury Marchuk, president of the Academy of Sciences, has spent out the areas where he sees Soviet science falling most seriously behind: high-velocity aerodynamics, in the development of new materials, and in bio-technology, although he says Soviet scientists are still ahead in protein synthesis, bio-energetics, and radiation bio-engineering.

The Soviet space programme is held up as one of the success stories but the useful results in the civilian sphere are limited. The main advance for Soviet science has been in space medicine - which is

fine for sending men to Mars, but not much use to stop children being infected with AIDS in central Asia.

Even the production in space of pharmaceuticals and semi-conductors could almost certainly be carried out more cheaply on earth.

In every sphere, it is the shortage of the sort of computer power taken for granted in the West which is hampering faster development.

A positive flood of Western computer companies is competing for the business perceived there. The problem is the same as for the rest of the Soviet economy: a desperate shortage of foreign exchange to buy Western equipment.

What the Soviets have to offer in exchange is a considerable expertise in software. Years of living with the shrunken computer memories dictated by Cocom rules have forced Soviet programmers to get much more ingenious than their Western counterparts.

On the face of it there should be a huge body of unexploited knowledge. Up to 80,000 Soviet inventions are registered in Moscow every year, but last year only 500 were registered internationally.

The trouble is that Western intermediaries are usually presented with enormous lists of inventions they might be interested in, without any attempt at discrimination.

Fund-raising is difficult, says Charles Batchelor

In search of cash

TRANSFERRING technology from one company to another is not without its problems. Shelbourne Reynolds, a Suffolk-based engineering company, discovered this when it decided to develop a grain stripper which speeds up the harvesting process.

Shelbourne decided for the first time to develop someone else's product under licence. It spent two years making prototypes and pre-production models until it made its first commercial sales in 1988.

The company is confident that the stripper will help double its turnover, currently £3.5m, within the next few years. But the development costs exceeded original estimates by four times, and the time taken to bring the grain stripper to market was much longer than expected.

Shelbourne consequently made its first loss in its 17-year history; the bank manager refused to provide further finance, and the company had to sell off 30 per cent of its shares to avoid liquidation.

For the smaller company, the problems of absorbing bought-in technology are acute. A large corporation may be able to afford to write off the occasional hiccup but the finances of the small company are more finely balanced.

Developing your own technology is also fraught with problems. Persuading financial backers to support new technology has never been easy and the losses which many British investors suffered from backing technology-based businesses in the early 1980s has made financiers wary.

Paul de la Pena, a Midlands-based company which blends industrial lubricants, was forced to go to Italy for finance for a new sensor to measure the growth of bacteria in machine oils after unsuccessfully attempting to raise the money in Britain.

The company, which has turnover of £2.5m, spent £1m of its own funds before turning to outside finance. It raised £1.7m from Iritech, an Italian state-owned financing agency. Mr Paul de la Pena, the chairman, felt that British venture capitalists did not understand the technology and were not interested in backing a project which had already reached an advanced stage of development.

His complaints are given backing by the venture capital industry's statistics. Just 9 per cent of the investments by the UK venture capital industry in 1988 went to technology related businesses compared with 16 per cent the year before. These figures compare badly with the US where 76 per cent of venture funds invested since 1980 have gone into technology.

Companies based on UK science parks make sparing use of

venture capital. Only 3 per cent use venture funds to get started while just 8 per cent take in second stage venture finance, according to a recent survey.

The failure of British venture capitalists, and the Government, to back innovation and support the smaller company has attracted the attention of the Prince of Wales. In a speech in June to the British Venture Capital Association, he warned the industry about taking a short-term approach to its investments.

The result is that innovative small companies are frequently forced to put together a mosaic of funding to meet their financial requirements.

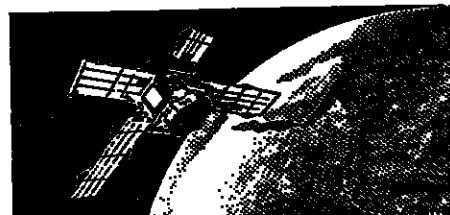
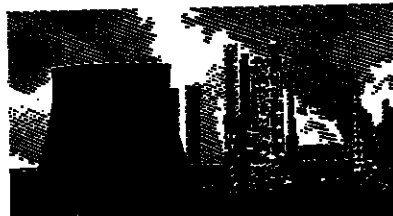
While technology-based companies may not appeal to the majority of venture capitalists, some venture funds have maintained a commitment to this sector. Transatlantic Capital, a London-based investment management company, earlier this month raised £2m for its third

Bio-Sciences Fund which will invest in the medical, health care and bio-technology industries in Europe and the US.

In June, N M Rothschild, the merchant bank, announced a £20m fund to finance companies involved with materials technologies. This year, technology funds were launched by Korda, a technology consultancy, which raised £5m; Prelude Technology Investments, a venture capital group raised £20m; Guinness Mahon, investment bank raised £25m and Charterhouse, a financial services group, £40m.

The banks have been taking a closer interest in technology-based businesses. Barclays Bank has taken a close interest in technology for some time while National Westminster bank earlier this year created a technology unit. NatWest is training technology managers for 25 of its main branches and has set up a Seed Capital Loan facility to provide loans of between £25,000 and £50,000.

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TECHNOLOGY

Take some used disposable nappies, a few potato peelings, last weekend's newspapers and the stew little Tommy refused to eat. Use it to make a fire under a steam-producing boiler.

This, say some, is a recipe to create energy and dispose of rubbish at the same time. Others are horrified because they see it as a mixture for environmental disaster.

There are about 500 waste-to-energy plants around the world, most in western Europe, the US and Japan. Singapore, Malaysia and the Soviet Union also have some. The first plant was built in England in 1895 and a few were constructed in New York City at the turn of the century.

Until now, relatively cheap fossil fuels and inexpensive landfill sites have kept the concept of using rubbish for fuel as an obscure art.

This could change. The shortage of rubbish dumps near cities and the spiralling cost of transporting domestic refuse to landfill sites out of town has focused attention on waste-to-energy plants.

The US Environmental Protection Agency predicts that a quarter of the US domestic rubbish will be incinerated by 1990. An average US citizen throws away about 1.2 tons of refuse a year, nearly half of which is paper and other combustible materials.

UK citizens each dump about a third of a ton a year. If all the domestic rubbish in Britain were burned instead of dumped it would generate as much electricity as the proposed nuclear power plant at Hinkley Point, according to Bob Wheatley, sales manager of Martin Engineering Systems, the UK subsidiary of Martin Munich and CNIM of France.

Waste-to-energy incinerators have traditionally generated steam for industrial use or for electricity. But most modern plants generate both power and heat. The power is sold to the local utility company and the heat is piped to district heating projects nearby.

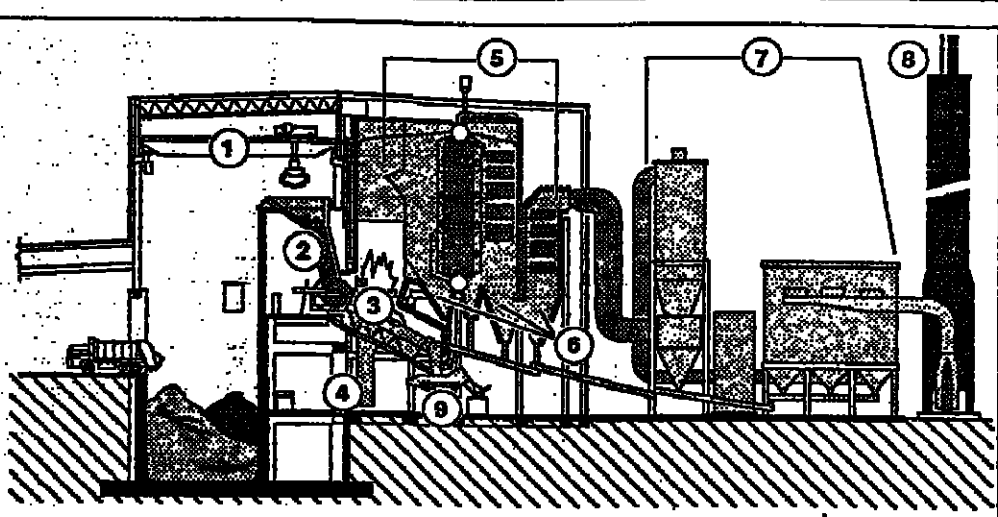
A plant in Gothenburg, Sweden, for example, burns 1,000 tons of the city's refuse every day and supplies 100MW of heat for district-heating systems and 14MW of electricity. A similar plant in Lausanne, Switzerland consumes part of the city's rubbish and gives heat and power in return.

In London, three of the city's boroughs have joined a consortium called the South East London Combined Heat and Power Consortium (Selchp). It is planning to build a 270m refuse-fired plant on an old dog-racing track.

At the heart of the plant will be a Martin incinerator. It uses a stoker-grate to ensure efficient combustion of the refuse. The grate, where the fire burns, looks similar to an escalator. The refuse is thrown on the fire and the mobile grate stirs, stokes and pushes material to the centre of the fire.

Air is blown in from underneath the grate. Combustion gases reach about 1,000 deg C and the heat is used to make steam. This in turn drives the turbines. Selchp will use some of the steam to heat water. The boroughs intend to buy the water and pump it through specially laid insulated pipes to heat council housing. The local electricity authority plans to buy the current generated by the turbines.

The Selchp plant will burn about 400,000 tons of refuse a year and produce 38MW of electricity and 75MW of heat.



The Martin waste-to-energy incinerator is typical of its kind. The system uses 21 processes to turn domestic rubbish into power and heat. The main steps are: a remote-controlled crane (1) grabs unsorted refuse and puts it in the feed-chute (2) from where it is transferred to the stoker-grate (3). Air is blown (4) from below the grate to fan the fire. The hot gases which reach about 1,000 deg C are forced through five stages, where they pass the boiler and heaters (5). The fly-ash (6) is removed before the gases enter the scrubbing devices (7), where acids are neutralised and particulates extracted. Cleaned gases leave via the stack (8). Fly-ash and residue-ash (9) is collected and dumped. Most stages are monitored by computer.

The power of burning rubbish

Peter Knight assesses the practicality of incinerators which turn waste into energy

The technology behind this type of plant was developed during the Second World War. Germany used it to burn low-grade coal. Small European countries with few landfill sites, such as Denmark and Switzerland, have used the incinerators since then to dispose of their rubbish.

But there are two big problems in building waste-to-energy plants. Bob Wheatley describes one as psychological; the other is financial. If the plants are to provide district heating and a disposal point for urban refuse, they have to be built close to houses. Residents are justifiably concerned about smells, noise and noxious emissions from the incinerator.

The flue gases should be "scrubbed" to meet new EC emissions standards. But environmental campaigners, such as Greenpeace, say the incinerators produce dangerous chemicals that can evade the scrubbing process and escape up the chimney. Operators dispute these claims. They say no dangerous emissions have ever escaped from any plant. Greenpeace argues, and no one disagrees, that the ash which remains after the process contains dangerous substances, such as heavy metals. The ash has to be buried in special landfill sites designated for hazardous materials. This, says Greenpeace, maintains a dependence on landfill. The rubbish should be recycled instead of burned, it says. But the cost is prohibitive. Jeff Cooper of the London Waste Regulation Authority says there has to be a balance of risk. "In household rubbish there is a small amount that you would not want to incinerate. But this is so small that when it goes through the system there is no risk to people."

In temperature - for example, when rubbish of low calorific values is being burned which means poisonous substances are not destroyed in the fire. Rubbish incinerators will have to include a fail-safe device that introduces fossil fuel to boost the fire if it drops below 850 degrees C.

Where money is concerned, there is no disagreement. The builders of waste-to-energy plants face high capital costs. "Incineration is a good way of getting rid of waste but only if you are recovering the heat. It's a very costly process and in the UK a lot more expensive than landfill," says Cooper.

"If you just want to generate electricity it's more economical to use a fossil fuel because the plant is cheaper to build," says Wheatley. "Refuse is the worst form of fuel [due to its inconsistency] that you can imagine. That's why the energy-from-refuse plants are expensive to build. The only way it will generate energy on a competitive basis is if the plant gets paid for the refuse it burns."

The costs of plants on the Continent are usually borne by the government or local authorities. The UK Government insists that they be self-financing. Raising the money is difficult because a large-scale plant burning rubbish could cost around £70m and will take 15-20 years to recoup the capital outlay.

Forming a consortium may be the solution. Equipment suppliers, project managers, plant constructors, energy wholesalers, energy customers (usually local authorities) and banks would be members. They would finance a feasibility study and, based on the outcome, form a utility company. The plant will only be viable if the boroughs pay the new company a "gate fee" to burn their rubbish and guarantee to supply sufficient refuse for the life of the plant.

This guarantee could be difficult if UK Government reforms change the way local authorities finance the disposal of their waste. The reforms might force local government to put out for tender the bulk disposal of rubbish. This could prevent councils from making long term commitments to supply waste-to-energy plants.

With worldwide emphasis on environmental issues and the development of new technologies to cut the cost of recycling, it would seem absurd, say in 10 years' time, to pay one company to burn the rubbish when another might want to recycle it.

Britain falls by the R&D wayside

Clive Cookson looks at an OECD report on nations' spending

Britain was the only western industrial country in which the percentage of national income devoted to research and development declined during the first half of the 1980s, according to a new analysis by the Organisation for Economic Co-operation and Development.

The OECD, based in Paris, produces the most comprehensive statistics available for making international comparisons of R&D. But the figures are inevitably somewhat out of date; the new report has complete statistics up to 1985 and partial data to 1987.

The overall picture for the 24 OECD countries is one of strong growth in R&D spending during the first half of the 1980s. Total OECD expenditure on R&D grew at a real rate of 6 per cent a year between 1981 and 1985, while GDP increased by 2.6 per cent. Partial data for the following two years, however, shows a slow-down to about 4 per cent R&D growth in 1986-87.

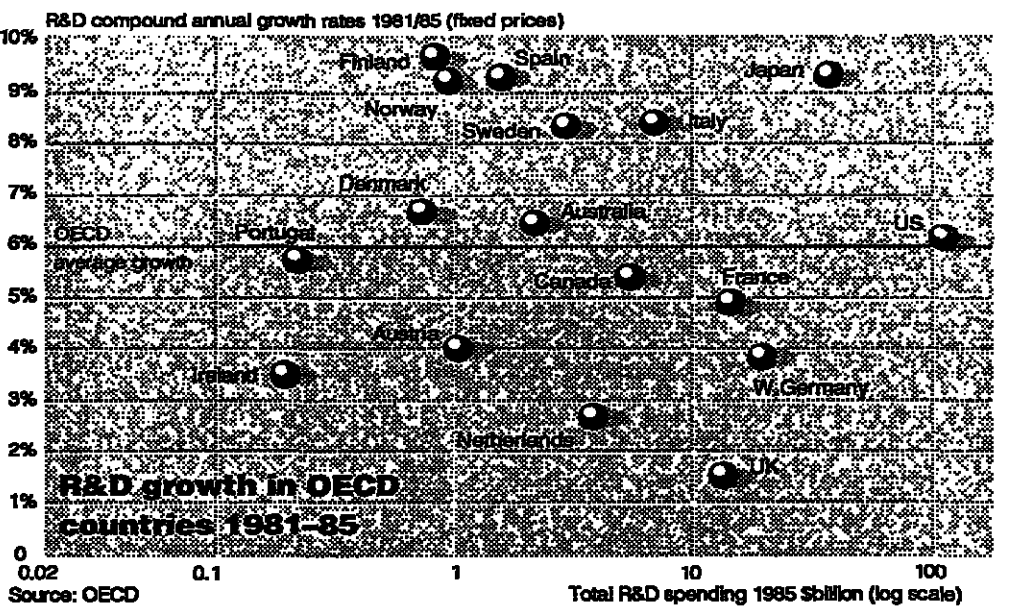
Japan, Spain, Norway and Finland lead the league table of 1981-85 R&D growth, with compound spending increases of about 9 per cent a year. The UK is bottom of the table, with 1.6 per cent a year growth. "The UK was the only country where growth in R&D expenditure was lower than growth in GDP," the report says.

Together, the 12 EC countries account for 34 per cent of the OECD's total GDP but only a 28 per cent share of R&D spending. "Performance has been particularly weak in the UK and the Netherlands," the report comments.

The swing from public to private sector funding of R&D, which began in the 1970s, has continued during the 1980s. The US is the only OECD country where the share of R&D effort financed by the government has increased. Even so, government-financed R&D grew more rapidly than total public expenditure in most countries. The clearest decline in government spending on civil R&D was in Britain.

Higher education's share of R&D spending fell in the late 1970s and early 1980s, reaching 16 per cent in 1985. In relative terms, university research is more important in small and medium-sized countries than in the OECD giants. At the same time, the structure of university R&D funding is changing. "General funds" are decreasing in favour of "mission-oriented" government programmes with an economic, social or regional slant. The proportion of university research financed by industry is rising but is less than 5 per cent for the OECD as a whole.

OECD Science and Technology Indicators Report No. 3 - R&D, Production and Diffusion of Technology. OECD, Paris. FFY200 or EA.



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IBM PS/2-502	286/160MHz	Micro Channel	40MB	15275
XIOS 3045X	386SX/160MHz	Industry Standard	40MB	15375
XIOS 35-455X	386SX/160MHz	Micro Channel	40MB	15375
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COMMODITIES AND AGRICULTURE

MP to seek court order closing Ok Tedi mine

A PAPUA New Guinean politician is to seek a court order temporarily closing the Ok Tedi gold and copper mine in the remote Fly River system because of environmental concerns, reports Reuter from Port Moresby.

the Fly River area and Mr Zeipi said trees and grasslands were already dying along the river as it silted up.

Peru to offer silver bonuses

By Kenneth Gooding, Mining Correspondent

PERU'S PLAN to offer bonuses to producers to encourage silver bullion exports was not likely to disrupt the market, analysts said yesterday.

ducers... we've got to do something," he said. Mr Garcia gave no indication when the plan would be put into effect.

Putting the environment out to contract

Bridget Bloom on a radical proposal for protecting the British countryside

DO YOU have a favourite country view - a small spinney perhaps, nestled alongside a sparkling stream, or a knoll of trees perched atop a rolling downland?



John Gummer: "Interested, if uncommitted," says the CLA

Under the plans - which the CLA will next month take to Brussels to try to convince Mr Raymond MacSharry, European Community Agriculture Commissioner, of their worth - any farmer could enter such a contract if he could find a willing buyer.

managed and accessible countryside. The CLA is not the only organisation concerned with farming and the countryside which is groping for some way of making sense of the plethora of special schemes to protect the countryside and help farmers adjust.

Honduran banana dispute continues

By Robert Graham

WORKERS AT the Tela Railroad Company, the largest banana producer in Honduras and owned by United Brands, yesterday defied a presidential decree to end a 5-day strike.

packaging operation under dispute to be transferred to an independent producer with guarantees about wage levels. At the same time, the management agreed to take no reprisals against the strikers, though they were denied any back pay.

Malawi aims for bigger slice of sugar loaf

Mike Hall on obstacles to growth for one of the world's lowest cost producers

PRESSURES to expand sugar production in this small southern African country are mounting. Domestic sales rose by 17 per cent last year, but a large part of the increase is thought to have been smuggled to neighbouring countries.

Mauritius, Swaziland and South Africa. Output has since grown to an annual average 165,000 tonnes. Sugar has become Malawi's third most important export, after tobacco and tea, and is estimated to account for about 10 per cent of the country's total export earnings this year.

Table: Malawi Sugar Output (000 tonnes) from 1986 to 1989. Shows a steady increase from 162,000 in 1986 to 198,000 in 1989.

devaluations of the kwacha. Lounho manages both estates. It holds a 51 per cent stake in Sucuma with the post-estate Agricultural Development and Marketing Corporation holding the rest.

comprising 1 per cent of the total US import quota. About 13,000 tonnes goes to Portugal at world market prices under a long-term agreement.

LONDON MARKETS

Table: LONDON MARKETS. Includes COCOA, RUBBER, SPOT MARKETS, and various oil and metal prices.

WORLD COMMODITIES PRICES

Table: WORLD COMMODITIES PRICES. Lists prices for various commodities like wheat, rice, and oil across different regions.

US MARKETS

Table: US MARKETS. Includes prices for COCOA, CRUDE OIL, HEATING OIL, and various agricultural products.

New York

Table: New York. Includes prices for GOLD, SILVER, and various futures contracts.

Chicago

Table: Chicago. Includes prices for SOYBEANS, CORN, and various agricultural products.

LONDON STOCK EXCHANGE

Sterling's fall sends equities reeling

THE SUDDEN collapse in sterling to below DM 3.00 dealt a fresh and brutal blow to confidence in the London equity market yesterday. Share prices were struck lower from the opening and attempts to steady at the FT-SE 2,500 mark merely tapped out a few more sellers. The market closed very near the day's low with a loss of more than 30 points on the Footsie Index. Turnover was a modest 425.8m shares.

Account Dealing Dates
Oct 10 Oct 11 Oct 12
Oct 13 Oct 14 Oct 15
Oct 16 Oct 17 Oct 18
Oct 19 Oct 20 Oct 21
Oct 22 Oct 23 Oct 24
Oct 25 Oct 26 Oct 27
Oct 28 Oct 29 Oct 30
Oct 31

ment and from its supporters. The FT-SE Index ended the day at 2,247 with some traders asking themselves whether it would continue to fall towards the 2,200 mark predicted by a number of equity analysts. Concern that the latest hike in interest rates could tip the UK economy into recession was heightened by a depressing survey of industrial opinion by Dun & Bradstreet, the market and business data group. From within the London market, Kleinwort Benson commented: "Higher interest rates have clearly increased the risk of recession."

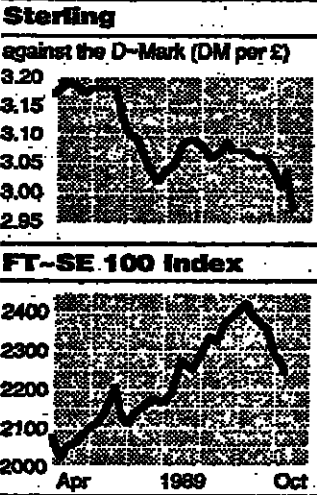
markets. Also helping to curb London's woe was the absence of pressure from New York, in low gear yesterday for Columbus Day. European markets, which have responded with more resilience to the round of interest rate increases, were again in better form than London. There were also further signs in London of a move into the good class international equities which are less exposed to domestic pressures than home-based operators. Shell and Unilever were prominent among such blue chip issues to continue building a sound base for a recovery.

Europe did not inspire the market. The shares fell 6 before recovering some ground to close 4 worse on balance at 1699. Yesterday's tea auctions in London showed another sharp rise in wholesale prices. Tea producer share prices benefited, with overseas trader James Finlay steady at 130p and plantation operator Chillingham a penny firmer at 182p. Mr Stephen Quayle, analyst at Sheppards, said that tea shortages had arisen in the wake of civil unrest in Sri Lanka. Chernobyl's effect on Georgian production, which had brought the Soviet Union to the London market as buyers and the uncertainty surrounding the outcome of the Indian general election expected in December.

FINANCIAL TIMES STOCK INDICES
Table with columns: Index Name, Oct 9, Oct 10, Oct 11, Oct 12, Oct 13, Oct 14, Oct 15, Oct 16, Oct 17, Oct 18, Oct 19, Oct 20, Oct 21, Oct 22, Oct 23, Oct 24, Oct 25, Oct 26, Oct 27, Oct 28, Oct 29, Oct 30, Oct 31, High 1989, Low 1989, Since Completion, Last Year.

Second thoughts on Jaguar

There was no stopping Jaguar from once again taking centre stage in the motor and engineering sector. Weekend press suggestions that General Motors might take a stake knocked Jaguar shares back sharply as the London market took the view that such a development might drive away Ford. Volume quickly expanded to 10m shares as UK profit-takers found ready buyers at US broking houses.



of both Dutch and UK Unilever shares and light arbitrage buying, as holders of Unilever's Dutch shares moved into the cheaper UK shares. Mr Carl Short of Kitcat & Aitken said Unilever's UK shares were trading at an 8.5 per cent discount to their Dutch counterparts. "Historically, that is quite a big discrepancy and the arbitrageurs appear to be realising it," he said. Unilever closed up 9 at 649p.

Among the rest of the food manufacturing sector, waning bid speculation depressed some shares. Delamy dropped 13 to 415p, and United Biscuits fell 10 to 362p, though BEM closed unchanged at 440p. Cadbury Schweppes fell back on news that General Cinema, the US group which holds a 16.9 per cent stake, was set to join the bidding for Saks Fifth Avenue, part of the British group that has been put for sale by BAT. Dealers said the market had assumed that General Cinema would probably sell its Cadbury's stake to buy Saks.

Shares had a grim day as the weak sterling raised the spectre of yet another interest rate rise. The more speculative issues fell steeply, and even Marks & Spencer, acknowledged to be the most defensive stock in the sector, slipped 2 1/2 to 187p. Tesco closed unchanged at 185p and remained the sector's favourite defensive stock. Analysts at Kitcat & Aitken recommended investors add to their holdings of Tesco as they believe it is set to assume Sainsbury's mantle as the industry leader in the 1990's. The defensive nature of the food retailing sector helped most of the larger companies avoid the sharp losses of the rest of the market. Sainsbury's closed 4 lower at 259p, while Asda fell 4 to 217p and Asda fell 7 to 187p. Unilever recorded the second largest rise on the stock market yesterday, boosted by sterling's fall, particularly against the DM. "With 82 per cent of Unilever's profits coming from overseas and a large part of that coming from Europe sterling's decline was good news for Unilever," said Mr David Shaw of Laing & Crutchshank. Dealers spoke of US buying

Jaguar's formal acknowledgment that it was in talks with GM over joint ventures and a possible minority stake in Jaguar came shortly after the market closed. Jaguar shares ended 46 lower at 665p, with prices drifting weaker in after hours trading. Dealers said the market feared an agreed GM stake might persuade Ford, which has said it wants to take 15 per cent of Jaguar, to back away from an auction for the UK luxury car maker. However, analysts and market-makers were divided about whether sellers had been more astute than buyers. One dealer insisted that "the market has come to its senses." But Mr Gavin Laundrie, analyst at Keltymore, said he could not see how Jaguar and General Motors could tie up a friendly deal without shareholder approval. "Shareholders are unlikely to want to block possible higher bids."

50,000 shares. Citicorp, which is said to have built a 4 per cent-plus stake in Burnham for SEV, the Dutch group, in past months were seen to be keen buyers of Burnham yesterday, leading to talk that it was adding to its stake of 7.2m shares. Burnham closed 18 higher at 619p, after 621p, while Calor jumped 10 to 415p. Premier eased a penny to 100 1/2p.

However, Cadbury's shares stabilised after it was announced that General Cinema had taken up all the shares offered to it in a recent Cadbury's rights issue. Although some traders said this meant a bid by General Cinema could not be ruled out analysts argued that General had moved to ensure its holding was not diluted, thereby maintaining a strategic holding in Cadbury. Cadbury closed down 12 at 379p. Guinness was one of only six FTSE 100 stocks to show an improvement. Positive weekend press comment on its stake in French drinks and luxury good group LVMH helped, as did the awareness that only 20 per cent of Guinness earnings come from the UK thus providing insurance against an economic hard landing. "Guinness is the hedge in the sector," said Mr Neil-Jones, analyst at County NatWest WoodMac, "and it is well placed to expand in the Far East." Guinness finished 5 up at 602p.

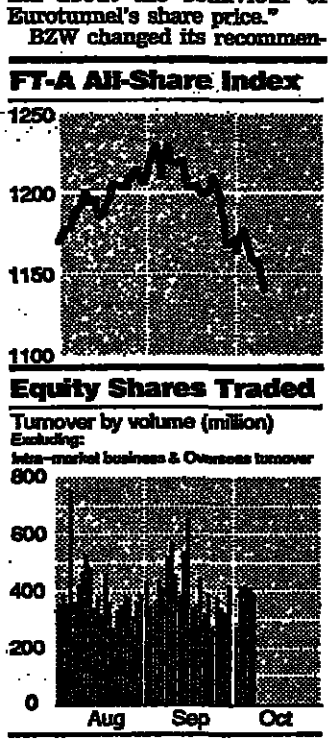
Grand Metropolitan was particularly weak after press coverage highlighted its high borrowings and hence vulnerability to high interest rates. The shares closed 13 off at 572p. A 40 per cent improvement in full-year profits from TIP

Shares in Reg Vardey, the multi-franchising car dealer, made an encouraging debut, despite the widespread gloom elsewhere in the market. Calculation of the FT Indices of daily Equity Bargains and Equity Value, and of the five-day averages of Equity Bargains and Equity Value, was suspended on July 31. The International Stock Exchange, the source of our data for these indices, has altered the basis of its reporting of equity transactions, making it impossible to resume the previous series. Calculation of the FT Indices of daily Gilt Edged bargains and of the five-day average of Gilt Edged bargains will continue as before. Closing values of the discontinued series are available on request. FT Prices 873-4007.

Burmah strong. Among a small number of Footsie stocks showing a gain on the session, Burmah Oil stood out with a steady rise. Analysts said that a takeover bid for the oil company could be a possible prelude to a full bid. Another story was that Burmah might be gearing up to launch a bid for Calor and would help finance this by selling its near 80 per cent stake in Premier Consolidated Oilfields. Dealers and specialists pointed out that neither of these stories was new and that both had been given a good airing in the past few months, "with nothing coming of either of them."

Dealers spoke of US buying of Burmah shares were up and running at the outset, helped by a couple of recent positive moves on the stock, notably from Hoare Govett and Citicorp. Sprague Vickers, buying gattered pace, however, when a 505,000 block was recorded on the Seag ticker, although it was later revealed as a trade reporting error which should have read a

Shares in Reg Vardey, the multi-franchising car dealer, made an encouraging debut, despite the widespread gloom elsewhere in the market. Calculation of the FT Indices of daily Equity Bargains and Equity Value, and of the five-day averages of Equity Bargains and Equity Value, was suspended on July 31. The International Stock Exchange, the source of our data for these indices, has altered the basis of its reporting of equity transactions, making it impossible to resume the previous series. Calculation of the FT Indices of daily Gilt Edged bargains and of the five-day average of Gilt Edged bargains will continue as before. Closing values of the discontinued series are available on request. FT Prices 873-4007.



Equity Shares Traded
Table with columns: Index Name, Oct 9, Oct 10, Oct 11, Oct 12, Oct 13, Oct 14, Oct 15, Oct 16, Oct 17, Oct 18, Oct 19, Oct 20, Oct 21, Oct 22, Oct 23, Oct 24, Oct 25, Oct 26, Oct 27, Oct 28, Oct 29, Oct 30, Oct 31, High 1989, Low 1989, Since Completion, Last Year.

APPOINTMENTS

Albert Fisher Changes at Barclays Bank top US post

ALBERT FISHER HOLDINGS, the fresh produce distributor, and processed foods supplier, has appointed Mr Keith Brackpool to the newly-created post of chief executive officer for its North American operations, writes Clay Harris. Mr Brackpool is chairman and chief executive of Pacific Agricultural Holdings, a Nasdaq-traded California farming and land company in which Fisher owns a 25 per cent stake. He will remain on the US company's board. Until now, the three regional chief executives of Fisher's North American operations have reported directly to Mr Tony Miller, chairman. The businesses in question have annual sales of \$700m and account for about 40 per cent of group profits.

Mr Alastair Robinson (left) director personnel, BARCLAYS BANK, is to become executive director, UK operations, from April 16 1990, on the retirement of Mr Owen Rout. Mr Geoff Miller (centre) director UK banking, takes on the additional responsibility of deputy to Mr Robinson. Mr Bill Gordon (right) director UK corporate services, becomes director personnel on April 16. He is chairman of Barclays commercial services and on the board of the mercantile group.

Chief executive of Vosper Thornycroft

Mr Martin Jay has been appointed managing director and chief executive of VOSPER THORNYCROFT HOLDINGS. Mr Peter Usher, who has been managing director for the past eight years, assumes the role of deputy chairman. Mr Jay joins from GEC Electronic Devices. non-executive director. He was a partner at Arthur Young.

Mr Michael Schofield has been made group managing director for YALE SECURITY INC's European operation. He will be responsible for Yale Security Products in the UK and operations in Italy and Sweden. Mr Schofield was managing director of Battersley Newman Hender, a Tomkins Group company.

Mr Richard Simkin has been appointed managing director of BEAZER VENTURES. He joins from Countryside Properties. Mr Stephen R. Collins has joined the GAINSBOROUGH GROUP as financial director. He was corporate finance manager with Touchs Ross in Manchester. POLAMCO has appointed Mr Tim Chessells as a

Former ICL executive, Mr Brian McGregor, has been appointed chief executive of WHITE HORSE OFFICE SYSTEMS, an office automation company. Mr Ben Bows has become actuary in addition to his duties as a director of CANNON ASSURANCE. Mr David Martin has been appointed corporate development director. He retains his position as vice president of Lincoln National Corporation, the parent company.

TRADING VOLUME IN MAJOR STOCKS

Table with columns: Stock Name, Volume, Price, % Change, etc. Lists various stocks like ASIA Group, Anglo National, etc.

Businesses for Sale. Sharp & Law PLC (IN RECEIVERSHIP). Sharp & Law was established in 1911 and is a name that is synonymous with high quality shopping throughout the UK. The company is based in Bradford, West Yorkshire and its core businesses are offered for sale. Details are as follows:

Advertisement for SHARP & LAW PLC (IN RECEIVERSHIP). Includes sections for Sharp & Law Storefitters, Law's Decorators, Cardinal Shopfitting Systems, Sharp & Law Project Management, and Law's Electrical. Also features the Cork Gully logo and contact information.

FT UNIT TRUST INFORMATION SERVICE

Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

AUTHORISED UNIT TRUSTS

Main table containing unit trust information with columns for Name, Class, Price, and other details. Includes a 'GUIDE TO UNIT TRUST PRICING' section at the bottom.

GUIDE TO UNIT TRUST PRICING
UNIT TRUST PRICING
Unit trusts are priced on a daily basis. The price at which units are sold to investors is known as the 'offer price' and is usually higher than the 'net asset value' (NAV) of the unit trust. The difference between the offer price and the NAV is known as the 'sales charge' or 'commission'.

FT UNIT TRUST INFORMATION SERVICE

Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

Main table containing unit trust information with columns for company name, unit price, and other financial metrics. Includes sub-sections for 'OTHER UK UNIT TRUSTS' and 'INSURANCES'.

OTHER UK UNIT TRUSTS

Table listing various UK unit trusts such as 'Windsor Unit Trust', 'Windsor Fund', and 'Windsor Growth' with their respective prices and details.

INSURANCES

Table listing insurance companies and their unit trusts, including 'All Friends Society' and 'Alliance Assurance Co Ltd'.

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

Table of FT Unit Trust Information Service, listing various unit trusts such as ERG Trust Company (Group) Ltd, Wardsley Investment Management, and others, with columns for Name, Type, and other details.

Table of London Share Service, divided into sections: BRITISH FUNDS, BRITISH FUNDS - Contd, LOANS, AMERICANS, INT. BANK AND O'SEAS, CORPORATION LOANS, COMMONWEALTH & AFRICAN LOANS, and Money Market Trust Funds. Each section contains detailed data for various financial instruments.

LONDON SHARE SERVICE

Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 01-825-2128

AMERICANS - Contd. Table listing various American companies and their share prices.

BUILDING, TIMBER, ROADS - Contd. Table listing companies in the building, timber, and roads sectors.

DRAPERY AND STORES - Contd. Table listing companies in the drapery and stores sectors.

ENGINEERING - Contd. Table listing companies in the engineering sector.

INDUSTRIALS (Misc.) - Contd. Table listing various industrial companies.

INDUSTRIALS (Misc.) - Contd. Table listing various industrial companies.

CANADIANS Table listing various Canadian companies and their share prices.

BANKS, HP & LEASING Table listing companies in the banking, hire purchase, and leasing sectors.

ELECTRICALS Table listing companies in the electrical sector.

ENGINEERING - Contd. Table listing companies in the engineering sector.

INDUSTRIALS (Misc.) - Contd. Table listing various industrial companies.

INDUSTRIALS (Misc.) - Contd. Table listing various industrial companies.

BANKS, HP & LEASING Table listing companies in the banking, hire purchase, and leasing sectors.

CHEMICALS, PLASTICS Table listing companies in the chemicals and plastics sectors.

DRAPERY AND STORES Table listing companies in the drapery and stores sectors.

ENGINEERING - Contd. Table listing companies in the engineering sector.

INDUSTRIALS (Misc.) - Contd. Table listing various industrial companies.

INDUSTRIALS (Misc.) - Contd. Table listing various industrial companies.

BEERS, WINES & SPIRITS Table listing companies in the beer, wine, and spirits sectors.

BUILDING, TIMBER, ROADS Table listing companies in the building, timber, and roads sectors.

DRAPERY AND STORES Table listing companies in the drapery and stores sectors.

ENGINEERING Table listing companies in the engineering sector.

INDUSTRIALS (Misc.) Table listing various industrial companies.

INSURANCES Table listing companies in the insurance sector.

BUILDING, TIMBER, ROADS Table listing companies in the building, timber, and roads sectors.

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LEISURE

Table of share prices for Leisure companies including Leisure Group, Leisure World, and Leisure Travel.

PAPER, PRINTING, ADVERTISING - Contd

Table of share prices for Paper, Printing, Advertising companies including Newsprint, Printing, and Advertising.

TEXTILES - Contd

Table of share prices for Textiles companies including Textiles, Clothing, and Apparel.

TRUSTS, FINANCE, LAND - Contd

Table of share prices for Trusts, Finance, Land companies including Investment, Finance, and Real Estate.

OIL AND GAS - Contd

Table of share prices for Oil and Gas companies including Energy, Petroleum, and Gas.

MINES - Contd

Table of share prices for Mines companies including Mining, Metals, and Minerals.

MOTORS, AIRCRAFT TRADES

Table of share prices for Motors, Aircraft Trades companies including Automotive, Aviation, and Aerospace.

PROPERTY

Table of share prices for Property companies including Real Estate, Development, and Land.

TRUSTS, FINANCE, LAND

Table of share prices for Trusts, Finance, Land companies including Investment, Finance, and Real Estate.

OVERSEAS TRADERS

Table of share prices for Overseas Traders companies including International, Global, and Foreign.

PLANTATIONS

Table of share prices for Plantations companies including Rubber, Sugar, and Timber.

THIRD MARKET

Table of share prices for Third Market companies including Exchange, Market, and Securities.

COMMERCIAL VEHICLES

Table of share prices for Commercial Vehicles companies including Trucks, Buses, and Vans.

COMPONENTS

Table of share prices for Components companies including Parts, Accessories, and Equipment.

FINANCE, LAND, ETC

Table of share prices for Finance, Land, Etc companies including Investment, Finance, and Real Estate.

MINES

Table of share prices for Mines companies including Mining, Metals, and Minerals.

PLANTATIONS

Table of share prices for Plantations companies including Rubber, Sugar, and Timber.

MINES

Table of share prices for Mines companies including Mining, Metals, and Minerals.

NEWSPAPERS, PUBLISHERS

Table of share prices for Newspapers, Publishers companies including Media, News, and Publications.

SHOES AND LEATHER

Table of share prices for Shoes and Leather companies including Footwear, Textiles, and Accessories.

TEXTILES

Table of share prices for Textiles companies including Textiles, Clothing, and Apparel.

OIL AND GAS

Table of share prices for Oil and Gas companies including Energy, Petroleum, and Gas.

MINES

Table of share prices for Mines companies including Mining, Metals, and Minerals.

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Table of share prices for Mines companies including Mining, Metals, and Minerals.

PAPER, PRINTING, ADVERTISING

Table of share prices for Paper, Printing, Advertising companies including Newsprint, Printing, and Advertising.

SOUTH AFRICANS

Table of share prices for South Africans companies including African, Development, and Real Estate.

TEXTILES

Table of share prices for Textiles companies including Textiles, Clothing, and Apparel.

OIL AND GAS

Table of share prices for Oil and Gas companies including Energy, Petroleum, and Gas.

MINES

Table of share prices for Mines companies including Mining, Metals, and Minerals.

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Table of share prices for Mines companies including Mining, Metals, and Minerals.

This service is available to every Company dealt in on Stock Exchange throughout the United Kingdom for a fee of 20 pence per annum for each security.

WORLD STOCK MARKETS

Table of world stock markets including sections for Austria, France, Germany, Italy, Sweden, Denmark, Finland, Japan, and Australia. Each section lists various stocks and their prices.

Table of stock indices including New York, Standard and Poor's, and various international indices like Australia, Belgium, Canada, etc.

Table of Tokyo - Most Active Stocks, listing various Japanese stocks and their trading activity.

Advertisement for Financial Times newspaper, featuring the headline 'From coast to coast, the Financial Times is now available for hand-delivery...' and a list of cities where it is delivered. Includes a graphic of a street lamp with a sign that says 'WALL ST.' and another sign that says 'Montgomery Street'.

Continuation of world stock market data, including sections for Japan and Australia, listing various stocks and their prices.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4pm prices October 9

Main table containing stock prices, organized into columns with headers like '12 Month High', 'Low', 'Open', 'Close', 'Change', 'Volume', 'Bid', 'Ask', 'Last Sale', 'Settlement', 'Dividend', 'Yield', 'P/E', 'Market Cap', 'Sector', 'Company Name', 'Symbol', 'Exchange'.



NYSE COMPOSITE PRICES

OVER-THE-COUNTER

Nasdaq national market, 3pm prices October 9

Table of NYSE Composite Prices listing various stocks with columns for stock name, price, and change.

Table of Over-the-Counter prices listing various stocks with columns for stock name, price, and change.

AMEX COMPOSITE PRICES

4pm prices October 9

Table of AMEX Composite Prices listing various stocks with columns for stock name, price, and change.

Table of AMEX Composite Prices listing various stocks with columns for stock name, price, and change.

Advertisement for FT hand delivered in Turkey, listing agents and contact information.

Advertisement for COPENHAGEN OR AARHUS, featuring a logo and contact details for K. Mikael Heimio.

AMERICA

Dow reaches all-time high in quiet holiday trading

Wall Street

AFTER DRIFTING lower during the morning session yesterday, equities picked up and ended at another all-time high in extremely quiet business with many traders away for Columbus Day and Yom Kippur holidays, writes Janet Bush in New York.

American Airlines added 1 1/2% to \$104.4. Some shareholders were reported to have said that they wouldn't necessarily back the "just say no" defence of company chairman, Mr Robert Crandall, against the \$120 a share offer announced by New York real estate developer, Mr Donald Trump.

from the money market on Friday, but the Fed Funds rate nevertheless moved well below 9 per cent, suggesting that there had been an easing move. The Fed is believed to have decided to ease as part of a Group of Seven agreed package aimed at driving the dollar down. The easing appeared to coincide with interest rate rises in Europe.

EUROPE

Vigour and high volume in West German blue chips

HERITATION marked a number of Continental markets yesterday as they failed to match the vigour of their West German counterparts, writes Our Markets Staff.

Navigation Mitze, the holding company with insurance interests, was up Ffr15 at Ffr1,470 and actively traded. The state-owned Assurances Generales de France said it had raised its stake to more than 75 per cent earlier, the stock exchange said Mercury Asset Management, the UK portfolio manager, had sold a 6.6 per cent stake.

STOCKHOLM recovered from early losses to close marginally higher in moderate trade as sentiment firmed. The ASEA-Variden General Index rose 0.7 to 1,255.1. Turnover improved to SKr285m from Friday's SKr240m.

World unmoved by struggle of the giants

MARKETS IN PERSPECTIVE

Table with columns: % change in local currency, % change in sterling, 1 Week, 4 Weeks, 1 Year, Start of 1989, Start of 1988. Lists countries like Austria, Belgium, Denmark, Finland, France, West Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, UK, EUROPE.

By Alison Maitland

THE US and Japan joined battle for the world cup last week but the struggle between the heavyweights ended in a nil-nil draw.

than expected employment growth which, with the dollar's resilience, suggested to some analysts that interest rates could come down.

rise for Europe as a whole while Europe excluding the UK gained a healthier 1.3 per cent. The Pacific region had another positive week, if Japan is removed from the equation.

ASIA PACIFIC

Yen's recovery shakes off investors' worries

Tokyo

INVESTORS took heart from the yen's recovery and last week's strength on Wall Street, and shares made a good start to the week, writes Michio Nakazono in Tokyo.

turner of metalworking machines, was third in volume with 18.2m shares. It closed up Y60 at Y2,200 on the strength of good earnings. TDK, the maker of magnetic tapes, surged Y710 to Y6,620 in active trading.

South Korea lowered the market temperature elsewhere, and the Pacific Basin put up a mixed performance yesterday.

cents to 25 cents and Bell Group, another Bond associate, lost 7 cents to 38 cents.

MANILA took last week's rise further, as new positions were taken in the commercial sector, and dealers said that more local investors are coming in.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

Table with columns: NATIONAL AND REGIONAL MARKETS, MONDAY OCTOBER 9 1989, FRIDAY OCTOBER 6 1989, DOLLAR INDEX. Lists various markets and indices with their values and changes.

Commercial Loans £1m+ Acquisitions: Buy-ins Management Buy-outs: Property Aviation: Shipping Interest-rate Contracts Foreign Exchange We speak your language DnC Den norske Creditbank PLC A London bank in all but name